

# Economic Effects of the Urbanization Process in China

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## ABSTRACT

**Objective:** The aim of the paper is to present and combine selected aspects of China's economic development: the agricultural reform, the household registration system, internal migration, and urbanization. Its further objective is to test the hypothesis that urbanization positively influences the economic growth in China whereas the *hukou* system has a negative impact on growth.

**Research Design & Methods:** The main method chosen for verification of the hypothesis is the critical analysis of existing literature of the topic. Some basic statistical analysis is also used. The relationship between variables is tentatively explored with correlation analysis.

**Findings:** The hypothesis positing the beneficial influence of the urbanization process on economic growth in China may be verified positively. This occurs through the increase of productivity in the rural areas, the increase of the internal demand, and the utilization of labour surpluses. The hypothesis positing the negative effects of the *hukou* system on the economic growth can also be confirmed. Through limiting the free flow of migration, the *hukou* system lowers the pace of modernization and efficiency of the agricultural sector and also decreases the quality of the human capital by depriving people of social care.

**Implications & Recommendations:** The urbanization process requires a fair amount of control and planning if it is to be considered one of the most important factors in Chinese economic growth. A reform of the *hukou* system is also crucial. Naturally, further research is needed. The suggested fields of analysis are as follows: the restraints of the continuous rapid economic growth in China, the relation between the accelerating urbanization and the income level, and the regional income disparity.

**Contribution & Value Added:** The paper adds to the literature by combining concepts and presenting them as one multidimensional problem.

**Article type:** conceptual paper

**Keywords:** China; economic growth; migrant workers; urbanization

**JEL codes:** J430, J610, O180,

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## INTRODUCTION

China is a country that for more than the last three decades has been characterized by unprecedented economic growth. Since 1978, the initiation of the change in politics taking the form of reforms by Deng Xiaoping, which laid the foundations for economic growth, the average yearly growth of GDP amounted to almost 10%. This phenomenon is explained by conscious design of the development path as well as less tangible reasons, such as cultural causes. External conditions are also not without merit, among them the development of financial markets, liberalization of capital flows, and high prices on global commodity markets.

The aim of the paper is to present and combine selected aspects of China's economic development: the agricultural reform, the household registration system, internal migration, and urbanization. Its further objective is to verify the hypothesis that urbanization positively influences the economic growth in China and that the *hukou* system has a negative impact on said growth. The method chosen for verification of the hypothesis is the critical analysis of existing literature and statistical data.

This article contributes to the existing literature by combining concepts and presenting them as one multidimensional problem. Through an application of an interdisciplinary approach, urbanization, primarily a social and demographic phenomenon, is considered in an economic context. This allows to answer the questions that determine the relevance of the topic: What is the relation between the urbanization and economic growth? Does the urbanization influence the economic growth rate? Does internal migration accelerate or impede the economic growth? Are changes in the household registration system (*hukou*) necessary?

## MATERIAL AND METHODS

Urbanization is a phenomenon closely related to Chinese economic growth. Similarly to economic growth, urbanization's dynamic also can be described as unprecedented. The aim of this paper is to present some aspects of the development, namely agricultural reform, internal migration, and the rise of the number of inhabitants of the cities; it also aims to answer the question about the feedback loop between economic growth and urbanization as well as about the role of the *hukou* system in modern China.

This aim and the existing literature allows for a proposed hypothesis that posits a positive influence of urbanization on accelerating economic growth in China and a negative influence of the *hukou* system on said growth.

This hypothesis will be verified by using critical analysis of the literature and statistical data. The character of the analysis will be in the prevalent part qualitative. The time-series data concerning China was collected from the World Bank database for the period of 1960-2012.

The research process consisted of the following stages:

- an analysis of the literature concerning the background of the research topic: the Chinese development paradigm and the *hukou* system,
- an analysis of the process of urbanization in China, its dynamics and characteristics, based on the statistical data and literature,

- an identification and analysis of phenomena related to the urbanization process: the internal migration and rural-urban inequalities,
- proposing the hypotheses,
- an identification of the economic effects of the urbanization process in China,
- an analysis of the influence of the *hukou* system on the economic growth,
- the verification of the hypotheses and the proposition of future actions.

### LITERATURE REVIEW

The Chinese development paradigm is analyzed in numerous publications, among them works of Liberska (2010), Gawlikowski (2004), Kowalik (2005), and Góralczyk (2012). It would be prudent to mention also the monumental work of Fenby (2008), which covers the Chinese history in a most complex manner. Naughton (2007) in his book 'The Chinese Economy. Transitions and Growth' also gives a thorough overview of Chinese history, as well as its economic reforms and current economic issues. Interesting approach to Chinese reforms can be found in the work of Ramo (2004). Chinese economy in the light of recent challenges is discussed by Prasad and Rajam (2006), and in the report 'China 2030. Building a Modern, Harmonious, and Creative Society' published by the World Bank (2013). A key aspect of Chinese development process, the emerging middle class, is also an important topic of many publications, among them the work of Farrell, Gersch, and Stephenson (2006). They consider the emergence of the middle class from the enterprises' point of view. Kharas and Geertz (2010), on the other hand, predict that the Chinese middle class will serve as an engine of growth not only for the Chinese economy, but a global one as well. Finally, a complex overview of China's growth drives can be found in the work of Lin (2012).

The Chinese have named their economic model a "social market economy", but the capitalism directed by leaders of the communist party hardly corresponds with the western understanding of the term. The Chinese development model is also called a scientific approach to development. It consists of rational economic planning based on experiences of other countries with consideration for local specifics: geographic, demographic, politic, and cultural determinants of growth (Liberska, 2010). Specifically, this comes in the form of Chinese reforms framed within an ongoing globalization process, the gradual opening up of the economy, an approach in which it is the state who decides on the range, speed, and tools that are used in active participation in globalization. This is what Stiglitz (2006) calls "managed globalization". It allows to avoid boom and depression periods. This model, known as the Beijing Consensus, has proven to be more effective than the heavily promoted neoliberal model, the Washington Consensus.

The groundwork of China's economic success was laid in 1978 by Deng Xiaoping in the form of a modernization project. Reforms concerned five key aspects: gradual introduction of market economy rules, abandoning Maoist ideology in favor of rebuilding proper administrative structures, implementing law and order coupled with democratizing social and political life, opening up the country to the world, and finally reinstating respect for tradition and old Chinese culture (Gawlikowski, 2004).

- Góralczyk (2012) lists the main elements of the Chinese development paradigm:
- pragmatic, non-ideological approach of the government to reforms;

- objective assessment of their own strengths and opportunities;
- active participation of the state in economic processes;
- strong state, led by well-educated elites;
- conscious use of the "market before democracy" rule, focusing on economic changes rather than social-political ones;
- acceptance of human rights treated as providing for the basic needs in a material sense, as opposed to the different aspects of individual freedom emphasized in Western countries;
- neoauthoritarianism derived from patriarchal Confucian rules mixed with communitarianism;
- opening up to the world and participation in globalization process, which is unprecedented in Chinese history;
- in international relations, the adherence to the rules of peaceful coexistence (respecting independence, territorial integrity and self-determination of the nations).

Effects of the Chinese economic policy can be seen not only in the country's dynamic economic growth. It is often posited that history has never witnessed the case of so many people enriching so much in so little time (Fenby, 2008). Almost 400 million Chinese people have been raised out of poverty: in 1984 as much as 84% of the population belonged to the group living under the poverty line (with income under 1 USD daily); in 2005 this group amounted to only 16% (Liberska, 2010).

China's urbanization process is investigated in various contexts. Zhu (2012) examines the evolution of China's city size. His findings show that in the long-run the city size growth is parallel to the model typical for developing countries. Also Kojima (1995) finds that patterns of China's urbanization are similar to those found in other developing countries. In his work he examines the relation between migration and urbanization and the regulations concerning the migration. Zhang and Song (2003) investigate the factors behind the migration boom. Their main findings are as follows: the rural-urban migration made dominant contribution to urban population growth, the causal link runs from economic growth to migration, and that the amount of intra-province migrants is positively related to the rural-urban income gap. Inequalities caused or increased by the urbanization process are the main topic of the work of Park (2008). An entirely different approach to urbanization is applied in the work of Chen (2007). The urbanization process is considered there in the context of the problem of land scarcity. Having expressed concerns over soil availability for grain production and soil quality degradation, Chen finds that China's cultivated land is shrinking and the urbanization process, unless backed with policy changes, is a threat to food security.

It is hard to analyze the urbanization process in China without mentioning the *hukou* system. A throughout analysis of this household registration system, as well as its impact on rural-urban migration, can be found in the work of Fan (2008). Also Chan and Buckingham (2008) investigate the functions of the *hukou* system. They examine the reforms of this system, finding that instead of abolishing the limitations, the reforms actually made migration harder than before, and that the *hukou* system is a major divide between rural and urban population.

## RESULTS AND DISCUSSION

### Changes in the Agricultural Sector

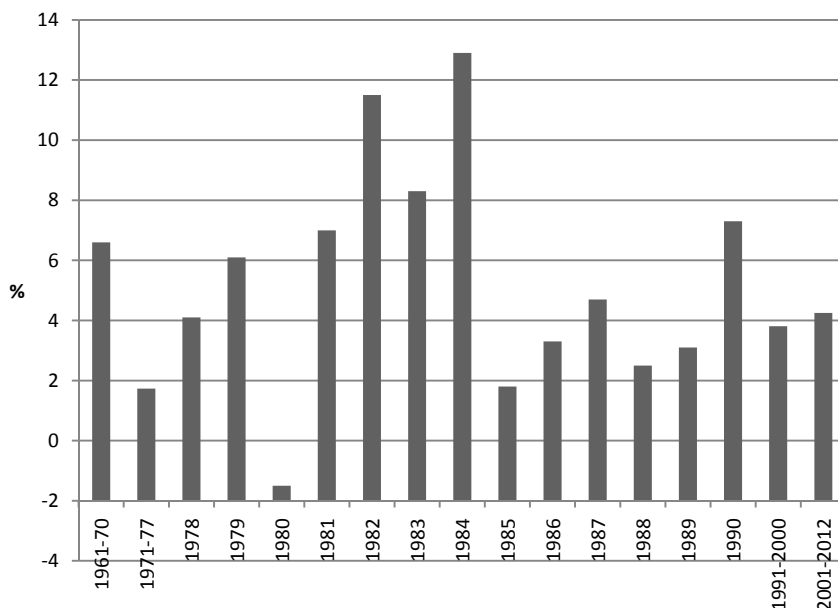
The basic challenge that China had to face, a problem that has remained relevant, was to provide all citizens with adequate living conditions. This problem pertained mainly to rural areas. In 1978 less than 24% of the population was employed in cities. The rest of the inhabitants worked in the countryside, usually in the inefficient agricultural sector. Together with the mining sector, agriculture employed 75% of the labour force while generating only 28% of GDP (Kowalik, 2005).

In this situation the logical step was to start economic reforms with the agricultural sector. It meant gradually abandoning a collectivistic model of life and work. Basic decisions regarding production were given to the rural households, which were supposed to prepare them for functioning in market economy conditions. In 1979 and 1983 agricultural procurement prices were increased significantly. This caused increased efficiency and returns in rural households. Through various people's mobility limitations, the government encouraged them to "leave the land without leaving the village", to change their professional activity profile from agricultural to non-agricultural without changing their place of residence. In 1983 rural residents were given permission to leave the village in commercial purposes. For the first time farmers were able to undertake commercial activity outside of their home villages (Arrighi, 2008). Nonetheless, despite a substantial surge in the size of free exchange on the agricultural products market, the state still maintained a significant amount of control over supply. It was accomplished by introducing state reserves and export quotas (Kowalik, 2005).

Reforms of the agricultural sector have caused a significant increase in productivity in this type of economic activity. The beginning of the eighties was marked by dynamic growth of value added generated in agriculture. In 1981 this value rose by 7%, in 1982 by 11.5%, in 1983 by 8.3%, and in 1984 by almost 13%. The average yearly growth of value added in 1981-1990 amounted to 6.2%, in the following decade 3.8%, and in 2001-2012 value added in agriculture increased by 4.2% a year on average (see Figure 1).

The productivity growth in agriculture can be in part attributed to Township and Village Enterprises (TVEs). In 1984 regulations regarding people's mobility were once again loosened. Farmers were allowed to work in nearby towns in emerging TVEs. These entities engaged part of the rural labour force surplus, moving it from agricultural activity to labour-intensive industrial activities. The scale of this phenomenon was substantial. In 1978 rural residents not employed in agriculture amounted to 28 million; in 2003 this number increased to 176 million, with most of these people employed in TVEs. In 1990 TVEs were subjected to more rigorous regulations; the collective ownership of the TVEs was assigned to all inhabitants of the town or village, but it was the local government who made management decisions. Regulations concerned also the reinvestment of profits, which was supposed to encourage modernization of the enterprises and the development of local society. Further regulations were not successful. Many differences between Township and Village Enterprises remain, but it cannot be denied that they have influenced China's economic success and improved the living conditions in rural areas through decreasing hidden unemployment, increasing income of the rural

households and partially lowering the burden of local taxes placed on households (Arrighi, 2008).



**Figure 1. The growth of value added in agriculture in China in the years 1961-2012 (in %, yearly average)**

Source: Own compilation and calculations based on the World Bank data.

In spite of the improvements of conditions on the Chinese countryside, however, the standard of living is still poor. In 2006 21.5 million rural residents lived in absolute poverty as defined by Chinese government (their annual income was less than 693 yuan, which is about 0.67 PPP USD a day), and the income of another 35.5 million people was less than 958 yuan a year (Liberska, 2010). In this situation mass migration from villages to cities is no surprise.

### The Hukou System

The *hukou* system is a household registration system. When it was first implemented in the times of the Xia Dynasty (approx. 2070-1600 B.C.), it served as a family registry, but later it developed and acted as a differentiation between clans and tribes. Throughout Chinese history the authorities used it as a foundation for taxation systems.

The *hukou* system was reintroduced in the communist period in 1958. Its function was to serve as an internal passport. A citizen was tied to the specific urban or rural area in which he or she was born and was supposed to remain for the duration of his/her life. Those with rural *hukou* were provided with land, and those with urban *hukou* were provided with a place of employment. *Hukou* defined the place where a person was entitled to social security benefits that could not be moved from location to location. In this way, internal migration was limited (Fan, 2008). Of course, there were exceptions to

the no-migration rule: rural residents could relocate to a city for educational purposes or urban resident could be relocated to the countryside as a form of repression.

Along with economic reforms and ongoing industrialization, new workplaces were created in the cities, which enticed poor rural residents. The *hukou* system was gradually changed; solutions such as temporary migrant status, selling the urban *hukou*, and regulations loosening in the smaller cities were introduced (Fan, 2008). The system's function of limiting mobility was practically abolished. However, it still remains a serious problem for the migrants. Direct factors limiting mobility are no longer viable, but the indirect limitations are valid even today.

A person leaving his or her region is in fact a no-class citizen, not belonging to the social stratification structure. It was already mentioned that the *hukou* system does not allow social benefits to be brought along when relocating to another area. Any basic form of free education, health care, or retirement benefits is not available to migrants. The social status of people changing their place of residence parallels the status of illegal immigrants, but they are illegal immigrants in their own country.

Despite those drawbacks numerous people decide to change their place of residence from rural to urban areas. China is facing the biggest flow of migrants from rural to urban areas in modern history. The number of migrants amounts to as much as 20 million people a year. It is estimated that in the 2010-2020 decade, as many as 300 million people will move from the countryside to cities (Liberska, 2010). Urban areas are therefore full of second-class citizens as codified by the *hukou* system.

Some of the negative effects of the *hukou* system are as follows:

- migrants relocating to cities, devoid of the chance to acquire an adequate place to live, settle on the outskirts, causing chaotic, unplanned, and undesired growth of the cities;
- growth of income inequality (Chan & Buckingham, 2008) – the rural-urban gap has increased 26% since 1997 and 68% since 1985;
- decrease in economic efficiency: not being able to leave their region, migrants cluster in small artificial towns, where productivity is much lower than that of big cities developed according to plans, due to the lack of economies of scale, lack of specialization, and not being able to reach the critical point of human capital necessary for innovation (Zhu, 2012).

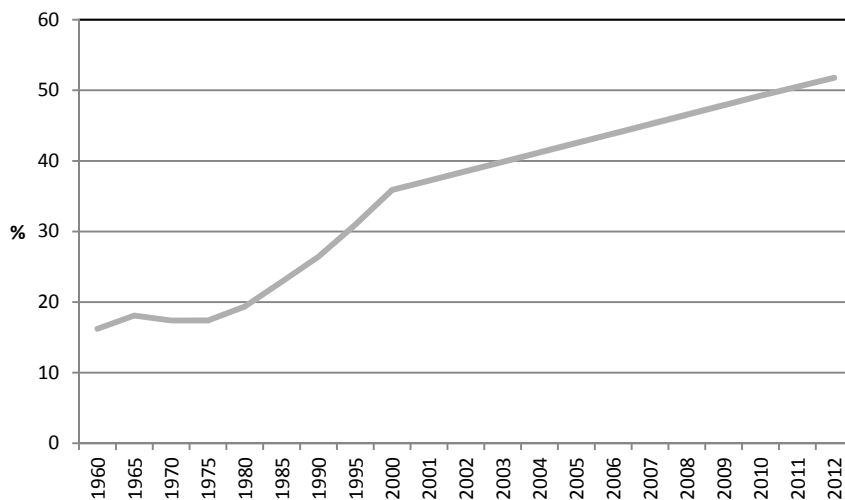
The World Bank analysts emphasize the necessity of *hukou* system reforms. They estimate that free relocation of 10% of the rural residents to the cities would cause additional GDP growth by about 6.4%. If the *hukou* system was abolished or dramatically reformed the labour force could move in accordance to the needs of the market, causing productivity increase, inequality decrease, and calming the social unrest (World Bank, 2013).

### Urbanization in China

In 1800 only 2% of the global population lived in the urban clusters; this had not changed for thousand previous years. As of 2008, the percentage of people living in the cities has broken the 50% barrier. There are more people living in the cities around the world than there are living in the countryside. The dynamic development of urban clusters in emerging and developing markets in Africa and Asia contributed greatly to this

phenomenon. It is estimated that by 2050 even as much as 75% of the global population will live in the cities. The process of urbanization does not slow down. Quite the opposite.

China's contribution to this global trend is significant, which is reflected in its economy. According to the World Bank, in 2012 (though some Chinese sources claim it was in October 2011) half of the Chinese population lived in urban areas. The urbanization index reached 51.8% then. Until 1981 the percentage of people residing in cities has remained under 20%. The 30% barrier was breached in 1994, and the 40% barrier was broken ten years later, in 2004 (Figure 2).



**Figure 2. Urban population in China in years 1960-2012 (Urbanization index, in %)**

Source: Own compilation based on the World Bank data.

This unprecedented growth (in Europe the period of rapid growth of urban population resulting in urbanization index reaching 50% lasted 100 years, in Japan 50 years, while in China only 30 years) is said to be greatly influenced by economic reforms conducted under direction of Deng Xiaoping. Many factors facilitating rapid urbanization are brought forth by the researchers: demographic changes, internal migration, changes in categories of some areas, and changes in definitions (Park, 2008). Nonetheless, the main driver of the Chinese urbanization was, and still is, the migration of masses from rural to urban areas. Additionally, it can be observed that the prevalent direction of the migration is from inland to the coast (Zhang & Song, 2003).

Economic reforms initiated in 1978 can be counted among the main motives of the migrants. The loosening of the migration policy in the eighties, connected with the *hukou* system, contributed to more people deciding to change their place of residence in search of better living conditions. However, simply loosening the policy was not equal to completely abolishing limitations, which is the reason why urbanization has always been one step behind the country's industrialization (Chen, 2007).

The rural-urban income inequality is a huge factor determining the migration. It partially derives from the favoritism of the communist leaders towards the urban areas.



Their residents were provided with the so-called "iron rice bowl" that comprised of a workplace, housing, healthcare, and retirement benefits. Income in rural areas amounts to less than a half of the average urban income, even after having taken into consideration the differences in the cost of living between cities and villages. The average real income in the rural areas in 2005 was equal to 39% of the average urban income. In 2003 rural-urban inequalities were responsible for 40% of total income differences in China (Park, 2008).

A serious challenge faced by rural residents is the lack of arable land. The area of land suitable for farming in China for one person is less than 0.1 ha. It is much less than the global average (0.2 ha per person). China feeds 22% of the global population while having only 9% of the global arable land (Chen, 2007). The lack of land is a particularly acute problem since it is not reflected in the prices of agricultural products. Typically, the scarcity of the resources increases their value. However, in the Chinese countryside it does not apply due to the state controlling the prices, even if it does not do so directly. Farmers are not able to earn higher profits from their products to compensate for the small area of arable land.

The large scale of rural-urban migration is explained by the labour surplus model (Todaro, 1969). Masses of people follow job creation – workplaces are created in the cities, in industry and services sectors that display higher productivity than the agricultural sector. The labour force surplus relocates to areas with higher productivity (Zhang & Song, 2003).

### **Effects of Urbanization**

Kevin Honglin Zhang and Shunfeng Song used econometric modeling to prove that the connection between China's economic growth and its dynamic urbanization is one-sided. It is the economic growth that influences urbanization, not the reverse (Zhang & Song, 2003). Obviously it cannot be denied that the economic growth can positively impact the development of urban areas. Industrialization, a key element of the level of China's development in the last three decades, as well as changes in the structure of the economy from agriculture-based to industry- and services-based, are creating new workplaces. The majority of these workplaces are created in the cities, because it is where enterprises usually decide to locate their activities. As was already mentioned, in decisions concerning migration the labour force is motivated not only by the availability of jobs, but also by the potential income. Industry and services sectors tend to achieve higher efficiency than agriculture, thus allowing for higher income.

However, the reverse hypothesis, positing the influence of urbanization on economic growth, does not lack convincing arguments. The growth of urbanization positively impacts the economy's efficiency through:

- the economies of scale,
- easier spillover effects between companies,
- higher density of people in a specific area, which improves efficiency by lowering the cost of investment per person and by increasing higher return per person (mainly concerning public services),
- the possibility of achieving the critical point of human capital, which is the amount of cumulated human resources necessary for innovation.

Interrelatedness of GDP growth, urbanization and changes in the agricultural sector can be observed while analyzing the correlation between these variables (Table 1). The correlation coefficient for all the combinations of variables is high. Naturally, correlation alone does not yet prove causal relations between GDP, urbanization and changes in the agricultural sector, nor does it show the direction of the hypothetical relation. However, it strongly suggests that such relations may exist.

**Table 1. Correlation between GDP, urban population, and value added in agriculture in China in years 1960-2012**

Pairs of variables	Correlation coefficient	Value of the significance test	p-value
GDP (current US dollars) and the percentage of urban population	0.8608	12.081	<0.0001
GDP (current US dollars) and the value added in agriculture (current US dollars)	0.9942	66.018	<0.0001
Value added in agriculture (current US dollars) and the percentage of urban population	0.8983	14.602	<0.0001

Source: Own calculations based on the World Bank data.

By creating urban workplaces the economy strengthens the rural-urban migration. This phenomenon causes the increase in rural income by decreasing hidden unemployment, often occurring in the agricultural sector. It also raises productivity in rural areas. As a result, the gap between rural and urban income becomes narrower. The World Bank estimates that the ratio of disposable income in cities to that in villages will decrease to 2.4 before 2030 (World Bank, 2013). The important factor will be of course the *hukou* system reform, without which this prognosis may not come true.

It can be argued that the limitations resulting from the *hukou* system had some positive influence on the Chinese economy. First of all, finding a job is the only way for the migrants from rural areas to survive in the city, so their work-related demands are rather low. They are treated as a cheap labour force that can be removed and replaced by new workers without significant difficulties (Fan, 2008). It is estimated that the Chinese economy needs at least 7% GDP growth a year to absorb labour surpluses in rural areas and state-owned companies (Michalczyk, 2007). Obviously, the more developed the economy, the more qualified the workforce needs to be.

Additionally, migrants relocating to the cities contribute substantially to savings accumulation that later transforms into investment. Without social care benefits they are forced to save money in case of disease, old age, or for children's education individually.

JP Morgan Chase analyst Haibin Zhu claims that urbanization is one of the most important factors that will impact China's sustainable development in the next decade or two (Al Jazeera, 2013). Urbanization is said to increase internal demand, which is the key to further economic development of the country. The demand for infrastructure and the quality of public services available in the cities will rise. The aim is to strengthen the Chinese middle class, especially if it will be achieved along with decreasing income inequalities. It is the middle class that is believed to help the economy by increased consumption.

The current size of the Chinese middle class is estimated by Brookings Institute analyst Homi Kharas to be about 18.2% of the population, which amounts to roughly 247 million people. It is expected that the growth of urbanization will help the middle class to reach the level of 607 million people in 2020 (Al Jazeera, 2013). A member of governmental think tank Han Jun estimates that the urbanization process will increase the internal demand by 30 billion yuan by 2030 (World Bank, 2013).

Unsurprisingly, the urbanization process has its negative effects, among them (Fan, 2008):

- poverty spreading in the cities,
- the spread of diseases,
- unemployment in the cities, caused by maladjustments between the inflowing labour force and the demands of the labour market,
- increased crime rates,
- traffic congestion,
- pollution, among it the pollution of soil,
- the decrease in the already small area of arable land.

However, the prevailing consensus is that the inflow of the migrants to the cities causes more positive effects than the negative ones (Jiao, cited in Fan, 2008). The majority of the problems mentioned above can be solved by intelligent planning of the cities' expansion, by improving the quality and range of available public services, and by better policies, especially fiscal ones, of the local authorities. The key factor is also the already mentioned *hukou* system reform.

## CONCLUSIONS

Modern China is a country characterized by a dynamic urbanization process. In the span of the last three decades, masses of people migrated from rural to urban areas, resulting in more than half of the population living in the cities in 2012.

In the face of substantial income inequalities, the rural residents relocate to urban areas hoping to improve their financial standing. An important factor is also the deficit of arable land. According to the labour surplus model, it is the difference in productivity between the agricultural sector and what is typical for the city industry and services sectors that motivates people to change their place of residence.

The *hukou* system, which registers and ties people to a specific area, is the main obstacle preventing free migration. Despite the fact that the regulations were loosened since their introduction and the *hukou* system stopped being a direct limitation to changing a person's place of residence, it still functions as an indirect limitation due to the inability to keep one's entitlement to social benefits after migrating. This way, a quasi-class of immigrants in their own country is created. Without the *hukou* system reform full utilization of the positive effects from the urbanization process will not be possible. Recently, Chinese authorities seem to acknowledge the problem, which has resulted in announcements claiming plans for a profound reform of the system, including granting social benefits to the migrants (China Daily, 2013).

Basing on critical analysis of the literature and statistical data, the hypothesis positing the beneficial influence of the urbanization process on accelerating economic

growth in China may be verified positively. Among the phenomena resulting from the urbanization, one can mention the increase of productivity in the rural areas, the increase of the internal demand, and the utilization of labour surpluses. The hypothesis positing the negative effects of the *hukou* system on the economic growth can also be confirmed. Through limiting the free flow of migration, the *hukou* system lowers the pace of modernization and efficiency of the agricultural sector and also decreases the quality of the human capital by depriving people of social care.

Naturally, further research is needed to fully understand ongoing changes and developments. The suggested fields of analysis are as follows: the restraints of the continuous rapid economic growth in China, the relation between the accelerating urbanization and the income level, and the regional income disparity.

Urbanization and economic growth can be considered to be interrelated processes. Growth and industrialization have created new workplaces that encourage people to migrate from rural to urban areas, which in turn has increased productivity in agriculture. The development of urban areas stimulates internal demand through the increase in the demand for infrastructure and the increase of income. Urbanization is supposed to help create the Chinese middle class that will increase the share of consumption in GDP and additionally spur growth. Nonetheless, a fair amount of control and planning is necessary for this process to result in positive outcomes. Otherwise, China will be forced to face the challenge of the rising number of slums, and the negative effects of urbanization will outweigh the positive ones.

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