



UNIVERSITY OF MACAU

FACULTY OF SOCIAL SCIENCES & HUMANITIES

DEPARTMENT OF ECONOMICS

Urbanization in Post-reform China

Ge Tong (M-B-05630-2)

Supervisor: Prof. Sun Guang-zhen

A thesis submitted in partial fulfilment of the requirement for the degree of Master of Social
Science at the University of Macau

July 2012



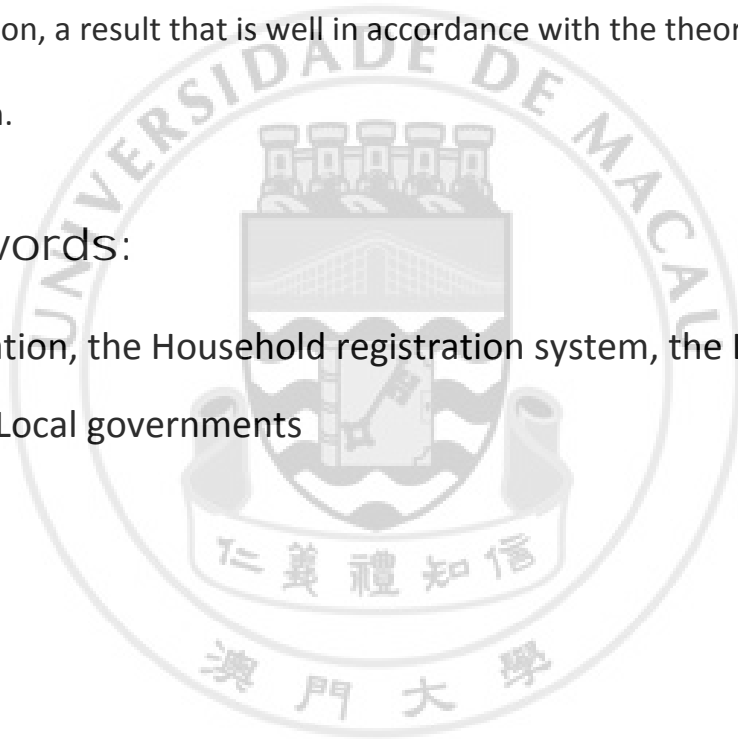
Abstract

This thesis investigates the determinants of urbanization in post-reform China, paying particular attention to its institutional arrangements, among which the household registration system (Hukou) and local governments' manipulation of the land market figure prominently. Urbanization addressed in this thesis refers not only to the increase of residents in urban areas, but also more broadly to the process through which production factors, especially the rural workers, are reallocated toward the non-agrarian economic activities. Both the Hukou system and the local governments' manipulation of the land market are Chinese characteristic, and are consequently believed to have produced significant effects on post-reform China's economic development in general and in its urbanization in particular. Based on a sound understanding of the nature, the origin and the evolution of these institutional arrangements, and their effects on the allocation of production factors and the price system in urban areas as well, this thesis provides a quantitative analysis of what and how these effects are. Examining the institutions in detail, we argue, theoretically, that

urbanization is profoundly shaped by the individual household and government choices in response to the institutions. For the remarkable urbanization process in China took off only since the middle of the 1990s, historically following the failure of the town-village enterprise, we use panel data during 1997 – 2009 to test the theory and find that the above-mentioned institutions have significantly affected the pace of urbanization, a result that is well in accordance with the theoretical prediction.

Key words:

Urbanization, the Household registration system, the Land market, Local governments



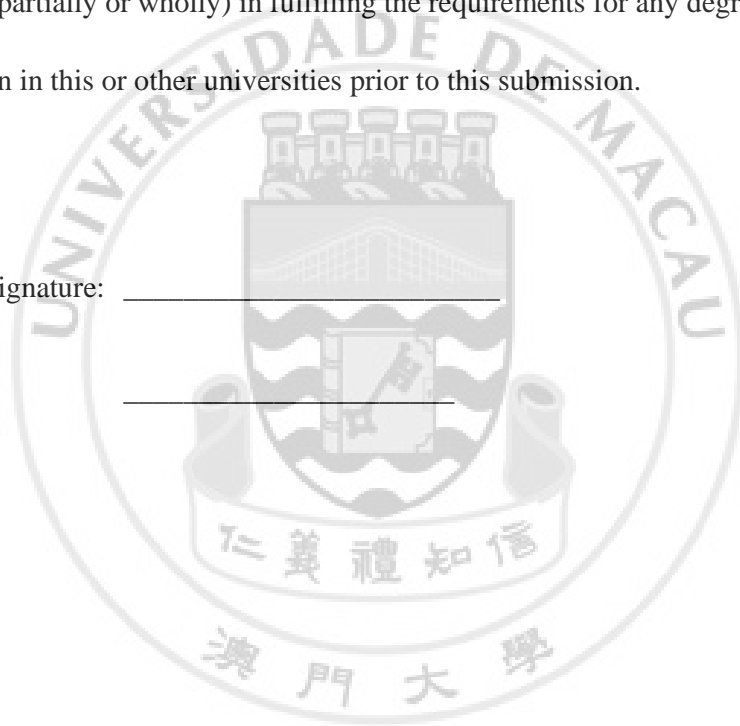
Declaration

Statement:

I, Ge Tong, hereby state that this thesis is my own and original work, apart from the sections where origins are clearly stated. All the materials in this thesis have never been used (partially or wholly) in fulfilling the requirements for any degree or qualification in this or other universities prior to this submission.

Student's Signature: _____

Date: _____



Acknowledgements

I would like to extend my heartfelt thanks to a host of people, without whose assistance the accomplishment of this thesis would have been impossible.

First and foremost, I would like to extend my deepest gratitude to my supervisor, Professor Sun Guang-zhen, for his insightful guidance and great patience. His encouragement and advice lead my study on economics into a new level.

I am deeply grateful to all professors in Department of Economics, University of Macau, for creating opportunities for academic study and supporting my thesis writing. They are all professional and very kind. For various help that I have received during my study, I would also like to thank sincerely my classmates and friends.

Lastly I owe my warmest gratitude to my beloved parents, who have supported me much on my thesis writing and my life. Many idea of this thesis comes from stories told by my father and his colleagues. I wish to devote this thesis to him.

Contents

<u>ABSTRACT</u>	<u>I</u>
<u>DECLARATION</u>	<u>III</u>
<u>ACKNOWLEDGEMENTS</u>	<u>IV</u>
<u>CONTENTS</u>	<u>V</u>
<u>CHAPTER 1 INTRODUCTION</u>	<u>1</u>
1.1 MOTIVATION	1
1.2 LITERATURE REVIEW	3
1.3 METHODOLOGY AND THE STRUCTURE OF THE THESIS	6
<u>CHAPTER 2 URBANIZATION: THE DRIVING FORCES</u>	<u>7</u>
2.1 MAJOR CHARACTERISTICS OF URBAN LIFE: A BRIEF DESCRIPTION	7
2.2 THE FORCES FROM THE URBAN MARKET	9
2.2.1 THE SUPPLY SIDE OF THE COMMODITY MARKET	9
2.2.2 THE DEMAND SIDE OF THE LABOUR MARKET	10
2.3 SOME OTHER FORCES	12
<u>CHAPTER 3 URBANIZATION IN POST-REFORM CHINA: SOME INSTITUTIONAL FEATURES</u>	<u>14</u>
3.1 RURAL-TO-URBAN MIGRATION: A SNAPSHOT	14
3.1.1 12-MONTH URBAN RESIDENTS, 11-MONTH RESIDENTS AND DAYTIME ONLY RESIDENTS	15
3.1.2 WILLINGNESS TO MIGRATE AND PRESSURE TO MIGRATE	17
3.1.3 SOME SPECIAL INSTITUTIONS IN CHINA	17
3.2 THE HOUSEHOLD REGISTRATION SYSTEM	19
3.2.1 ORIGIN OF THE HUKOU SYSTEM	19

3.2.2 TYPOLOGY, EVOLUTION AND REFORM OF HUKOU	20
3.2.3 THE TWO MAJOR EFFECTS OF THE HUKOU SYSTEM ON URBANIZATION	24
3.3 THE LAND RELATED INSTITUTIONS	26
3.3.1 SOME CHARACTERISTICS OF LAND AS A SPECIAL PRODUCTION FACTOR	26
3.3.2 BRIEF DESCRIPTION OF LAND INSTITUTIONS	28
3.3.3 INFLUENCE OF LAND USE TRANSFER (AGRICULTURE USE TO NON-AGRICULTURE USE) ON URBANIZATION	31
3.4 LOCAL GOVERNMENTS' BEHAVIOUR	32
3.4.1 MAJOR INSTITUTIONAL ARRANGEMENTS RELATED TO GOVERNMENT BEHAVIOUR IN CHINA	33
3.4.2 THE LOCAL GOVERNMENTS' MANIPULATION OF LAND MARKET	35
3.4.3 THE INFLUENCE ON URBANIZATION	37
<u>4. EMPIRICAL ANALYSES</u>	<u>39</u>
4.1 ESTIMATION SPECIFICATION, VARIABLES AND DATA	39
4.2 EMPIRICAL RESULTS	47
4.3 FURTHER EXPLORATION	50
4.4 GRANGER CAUSALITY TEST	57
<u>CHAPTER 5 CONCLUSIONS</u>	<u>61</u>
<u>BIBLIOGRAPHY</u>	<u>64</u>