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THE RURAL-URBAN DIVIDE STORY: A COMPARISON BETWEEN INDIA AND CHINA

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ABSTRACT

There is a linkage between the rural and urban development. These linkages matter because rural and urban livelihoods are interconnected economically, financially, and socially. Rural-urban disparities, particularly in post-colonial countries, have for long been one of the causes of concern for the policymakers. The disparities are seen in all spheres of human life - economic and non-economic. The extent of disparities, however, differs from country to country. India and China started their journey towards development almost at the same time but there is a great deal of differences in development between the countries because of the different patterns of development adopted by the countries. India is the largest democracy with consistent economic growth rate since independence. India is also third largest scientific and technological workforce. After the establishment of the communist regime in 1949, China adopted a development strategy that emphasized urban industries with capital-intensive technology through various implicit and explicit transfer programs. Economic policies in the countries over the years have strengthened the Rural-Urban bias in the countries and this paper studies the concept with respect to different factors. The paper also highlights the future steps to be taken by the countries and the suggestions.

KEYWORDS

Disparities, Government policies, Growth Indicator, Per-capita income, Rural-Urban Divide.

1.1 INTRODUCTION

The origin and extent of disparities between countries have always been a concern for the policy makers. The disparities touching every sphere of human life are different in different countries. The arena of early reforms in both India and China had focused on the rural areas and the rising special disparities in these countries can only be corrected by effectively bringing to use the linkages and synergies. Due to various preferential practices like agricultural price and production controls, overvalued exchange rates, industrial protection as well as public investment and welfare transfers that favoured the urban over the rural population, the rural-urban disparities were further reinforced. Both countries had started the path towards development almost together with China in 1949 and India in 1947 but the preferential practises, focusing on industrialisation and development, contributed to huge gaps in the platform of development and the process of industrialisation [1].

2. URBAN BIAS IN INDIA AND CHINA- CAUSES AND CONCERNS

The tracing of development path reflects a concern for the linkages between rural and urban development. These linkages connect the sectors in all the spheres socially, economically and financially [2]. From a rural perspective, most farmers depend on urban markets to secure their livelihoods. Likewise, urban areas are linked to the rural sector through several channels. Urban consumers, on the other hand, benefit from cheap and sustained food supply from rural areas. The rural sector can also act as a buffer from the impact of macroeconomic shocks on the urban economy. Links include flow of information along with people, on a temporary or a permanent basis, in the best possible way [3].

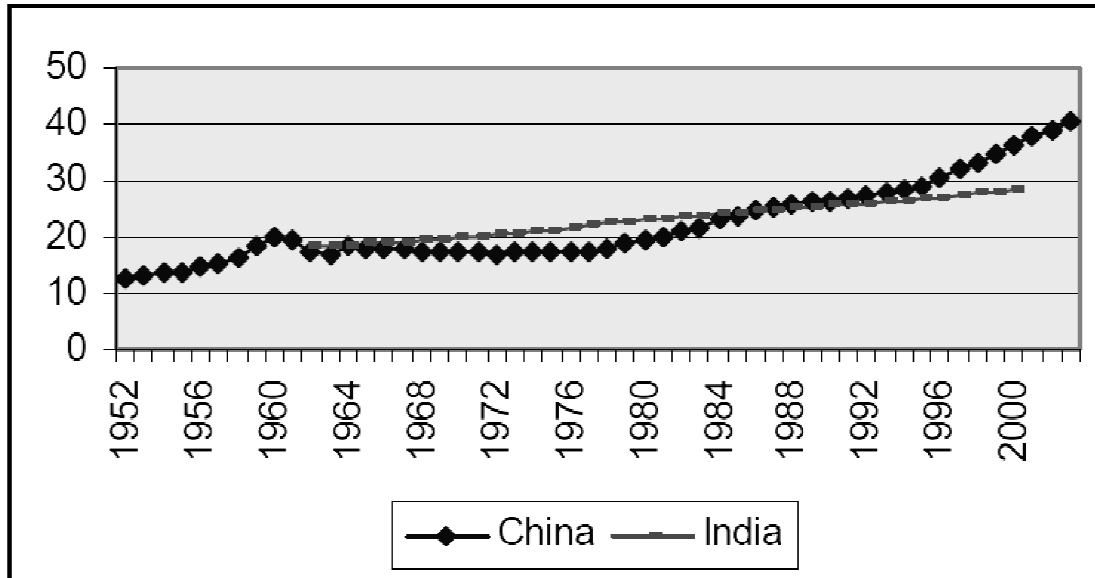
Developmental policies facilitate the rural-urban linkages in a way that the resources are channelized to promote equalisation of marginal returns in the various sectors. But in many developing countries the government often interfere in the natural development process to favour the urban over the rural, therefore, the resources and facilities are favoured to the urban sectors. As a result, overall efficiency is lost, as resources do not flow to their "free-market" destinations where they would naturally earn the highest rate of return. As a result, the rural-urban gap increases. In these countries, the urban population is often seen to be better off than their rural counterparts. This rural-urban divide evolves because of the preferential practises of the governments in developing countries; the effects are seen in the form of urban bias in the gap between urban and rural areas in terms of labour productivity, per capita income, and poverty rates.

For India and China, urban bias has usually arisen from the combination of three different but related policies. The first and most common one relates to policies affecting the trade (i.e., price policies). Very often agricultural outputs are under priced, with levels that are much lower than those that would result from a free market situation or in the international market. Secondly, the overvalued exchange rates in most developing countries enhance this bias, adversely affecting all agricultural products in particular. Thirdly, governments' tendencies to favour urban sector are reflected in their developmental policies. Like other government policies, public spending aims at equitable development and increased efficiency by correcting market failures. In many cases, governments may have to trade off efficiency and equity goals for long term benefits. Where market failures are more pervasive among the poor (i.e., the poor are poor because they are disproportionately affected by market failures), this leads to the presence of so-called "win-win" possibilities where government intervention leads to both a more efficient and a more equitable allocation of resources [4]. For example, public investment in rural infrastructure has not only generated economic pay-offs by correcting market failures but has also led to poverty reduction.

3. COMPARISON OF INDIAN AND CHINESE GROWTH INDICATORS

3.1 URBANISATION RATE OF INDIA AND CHINA

FIG 1: URBANISATION RATE OF INDIA AND CHINA [5]



After the communist regime in 1949, China adopted a capital-intensive technology through the various transfer programmes and the urban bias that prevails in China finds its roots in the country's history. The rationing system introduced in the 1950s enabled urban residents to have equal access to food and other necessities at much lower prices than would have occurred without state intervention. Almost all urban residents of working age had guaranteed jobs in the state- or collective-owned sectors. Because these jobs were permanent and labelled the "iron rice bowl," urban unemployment was seemed to be non-existent. Many benefits along with the jobs were provided such as free or subsidized housing and health care. While the rural sector continued to produce with the stringent state planning.

In India both the economic and social factors led to a slow urban growth. While, there was minimal industrial development in the country, there was no major push for the people in the rural areas to move to the urban areas. However, this trend changed towards the end of 1980's and early 1990's are when the Government policies led to rapid industrial development in the country. This industrial development led to the country's rural folk coming to the cities as cheap labour. The population of the youth also reflected a scenario where this segment of the population migrated to the tertiary sector, from the primary, for better income generation and employment opportunities [6].

3.2 RURAL- URBAN PER CAPITA INCOME GAP

In China various policies such as the heavy-industrialization development strategy, combined with the hukou system, enabled the government to obtain agricultural products at lower prices, to maintain low urban consumption (through rations), to control the mobility of labour, and to increase industrial investments, contributed to the concentration of capital investment in the urban sector. In 1978, for instance, per capita income in rural areas was only 34 per cent that in urban areas.

FIG 2: URBAN-RURAL PER CAPITA INCOME GAP IN CHINA [7].

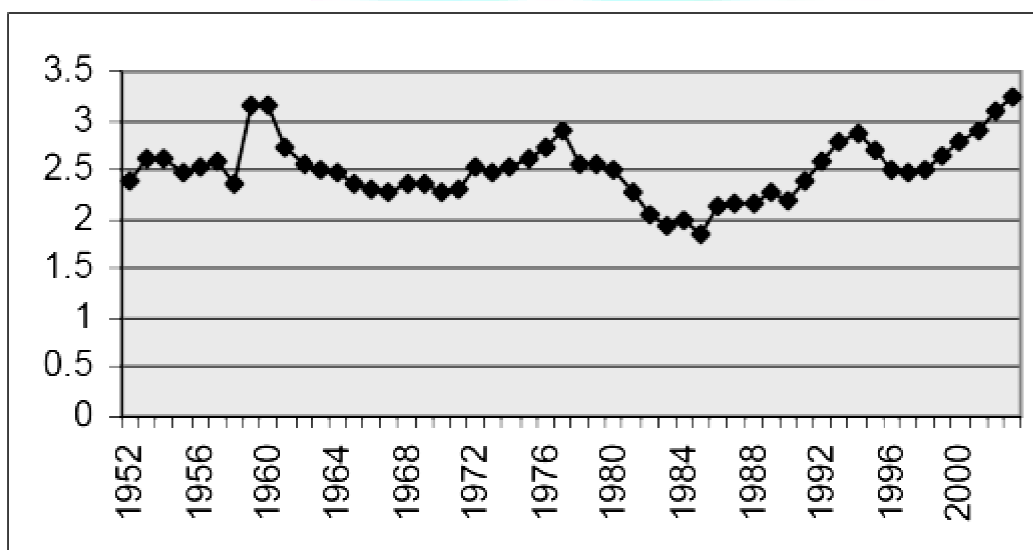
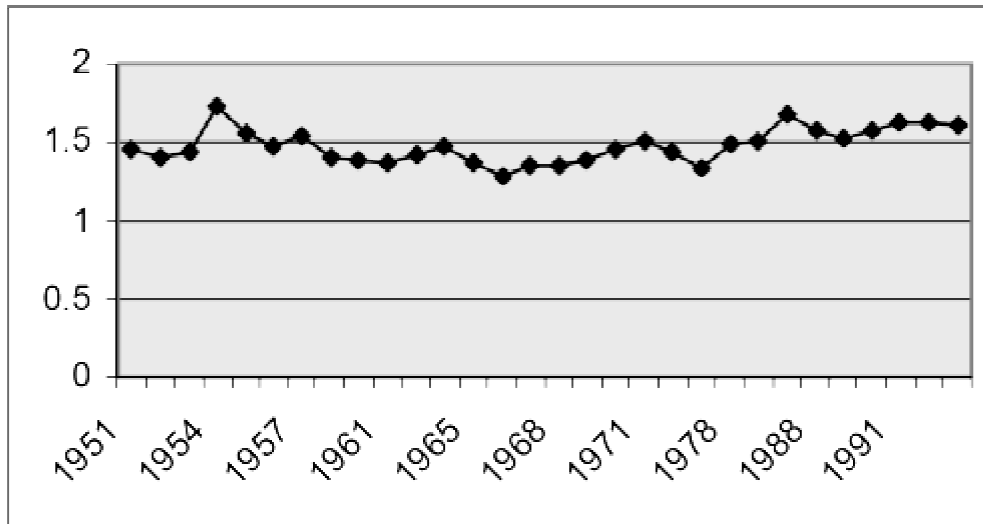


FIG 3: URBAN-RURAL INCOME GAP IN INDIA [8].

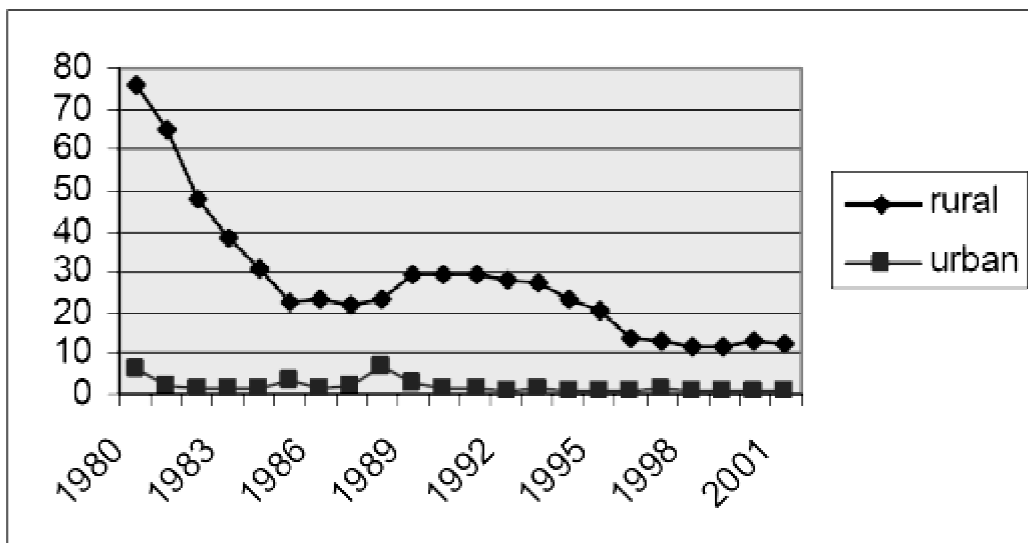


India focused on self-reliance and rapid industrialisation in the early stages of development (During the first three Five-Year Plan periods (1951-1966)). This resulted in flow of immense capital and development of urban area at the expense of the rural sector. To provide cheap basic inputs for industrial development, farm prices were kept artificially low and agricultural exports were curtailed through quantitative restrictions and a strict exchange rate. Basic food products were given at subsidized prices in urban areas and food deficit regions. After the mid-1960s, India's government began to prioritize the development of the agricultural sector. Now, various agricultural support mechanisms and input subsidies were introduced, which helped the success of India's Green Revolution and the development of small-scale industries in rural areas. However, after the 1990's a policy of Liberalisation, Privatisation and Globalisation was followed which resulted in significant development in the rural areas also. As a consequence of the urban-bias that existed in the society, there were huge income gaps between the people in the rural and the urban sectors [9]. Cost of living and the standard of living were both in favour of the urban sector which were the main causes of the income gaps. This effect was seen to be much more enhanced in China.

3.3 POVERTY RATES

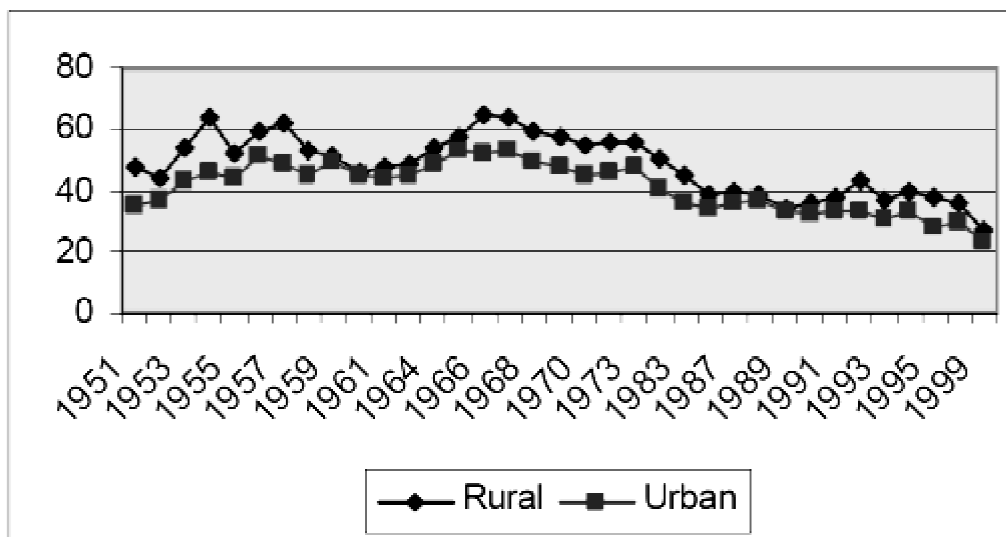
China having the world's largest population has probably the biggest success in relation to poverty reduction. The Chinese growth story saw the country's poverty level from around 80% in the 1980's which went down to around 10% in the late 1990's. A planned economic system in the first phase and then opening of the markets in the 1990's proved to be beneficial for the country. This liberalisation of the economy resulted in reduction in poverty due to rapid industrialisation.

FIG 4: RURAL AND URBAN POVERTY RATE IN CHINA [10].



Sources: Chen and Ravallion (2004).

FIG 5: RURAL AND URBAN POVERTY RATES IN INDIA [11].



Source: Indiatat, India Statistic at a Glance (2004).

India's poverty reduction story has however been a different sort of roller coaster ride. Though the beginning wasn't very successful in India due to repeated crop failure in 1960's and failure of the governmental policies, the arena of 1990's and liberalisation in the country brought the poverty levels down, after the 1990's the poverty rates in both urban and rural India have come down at a consistent rate and has reached approximately the 20% level. With the benefits of new government policies and rapid economic growth, the poverty levels are expected to further come down in the near future.

4. FUTURE STEPS TO BE TAKEN BY BOTH COUNTRIES

Both countries have taken steps to correct the urban bias to some extent. Urban-biased policies still prevail particularly in terms of government investment priorities, which disproportionately favour urban areas in both countries. We recommend the following policies to help correct the urban bias and promote growth and poverty reduction.

A. TARGETED PUBLIC INVESTMENT

Because developing countries have limited resources, governments need to better target their investments to achieve growth and poverty alleviation goals, channelizing their scarce resources in the best possible way. In poor areas such as western China and eastern India, investments in rural infrastructure, agricultural research, developmental programmes and rising the level of education have a larger poverty reduction impact than similar investments in the biased planned areas. Even more importantly for rural-urban linkages, the poverty reduction impact of rural investment extends to urban poverty reduction through such channels including reduced food prices.

B. REDUCTION OF MIGRATION RESTRICTIONS

Rural-urban migration not only has the potential to improve the well being of migrants as well as alleviates the living conditions of rural people. Studies have found that rural-to urban migration in India and China has contributed to poverty reduction and enhanced the development process. More specifically, remittances increase the per capita income of rural residents, diversify incomes and provide initial capital to develop rural non-farm economy and small towns; all this enhances their productivity and provides them with an additional security. However, formal and informal institutions and policy barriers still restrict the movement of the population. In China, many jobs in the urban areas still require urban residence, even if farmers find jobs, their rights are usually not protected and they are often not entitled to many social services to which urban residents are entitled. These restrictions and barriers should be removed to make large-scale migration possible (both permanent and seasonal), with provision of protection for the migrants.

C. DEVELOPMENT OF THE RURAL NON-FARM SECTOR

The rural non-farm sector is important for the alleviating the rural economy as well as for poverty reduction and abridging the income gap between the rural and the urban economy. It also provides opportunities for poor rural households to diversify their livelihoods. In India, the bulk of the poor are landless or live on small farms with inadequate land for their own food needs and disguised employment is in abundance. Consequently, they depend heavily on earnings from supplying unskilled wage labour to other farms or to nonfarm enterprises. Public investment in physical infrastructure (road, transportation, communication) as well as in education and health is crucial for the small farms. This would facilitate and help the rural stock to set up their own business or generate a non-farm income which at times provides to be a additional security.

D. DEVELOPMENT OF SMALL RURAL TOWNS

Small and medium-sized towns are an important intermediary point along the rural and urban spectrum. More specifically, small- and medium-sized towns and cities act as service delivery nodes to rural areas and link the rural economy with external input and output markets, thereby reducing transaction costs enhancing the efficiency [12]. A study of small rural towns in Madhya Pradesh and Orissa, two poor states of India, found that such towns and their nearby villages are strongly linked through consumption, production, and employment linkage. Small towns can also serve as a stepping-stone for rural residents by absorbing some of the agricultural labour surplus and doing away the pressure put on already congested metropolitan centres, while contributing to the growth of the national economy and supporting the overall development in the country. The development of small rural towns requires better infrastructure (in terms of quantity and quality), which in turn will facilitate access to markets and lower transportation costs saving various important resources.

5. SUGGESTIONS & CONCLUSION

Like many developing countries, China and India followed development strategies biased in favor of the urban sector over the last several decades. These development schemes have led to large income gaps between rural and urban areas and reducing the overall efficiency in the economy. Official data reflect how this urban bias was greater in China than in India.

Both countries have corrected the rural-urban divide. But the bias still exists. Other studies also support the idea presented here that correcting this imbalance will not only contribute to higher rural growth, but also secure future urban growth. More important, correcting the urban bias will lead to poverty reducing balanced growth and enhanced national development.

Correcting this government's bias strategies along with the repercussions, which are already imposed, towards investment in urban areas has to be given immediate focus for correction. In particular, more investment is required in education, infrastructure, healthcare facilities and agricultural research and development which has proved to be both pro-growth and pro-poor. Providing health, education, housing, and pension services for rural migrants in urban areas is essential to promoting human capital movement and development of non-farm areas proves to be very productive.

In every sphere of life, quality and not quantity matters in the course of development in the long run. Urban areas are more advanced than rural not because of quantity of population but because of quality and efficiency of population i.e. human resources. Urban people have more opportunities than rural people like easy access to education and many more services, which increases their efficiency and skills. Rural people are relatively stricter in terms of following their customs and traditions rather than moving along with changing time than urban people who prove to be more practical and open their minds to higher progressive opportunities. Darwin has earlier said that in the world of competition, the fittest will survive. In today world of immense competition, it is quality and efficiency alone that can secure your survival.

China is more developed than India because of the quality and creativity of population. China having the largest population in the world has to a large extent been able to reduce poverty. However in India, which has the second largest and the fastest growing population, regards population a hindrance to development. In India, states of Uttar Pradesh and Bihar are less developed than states of Kerala and Karnataka, therefore it cannot be said that quantity brings about prosperity. Population in urban areas is more educated and developed as compared to rural population which makes the urban people rich and prosperous. Hence, it is true that urban areas are rich because population causes prosperity but it is the quality not quantity of population that causes prosperity.

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