

RURAL URBAN DIVIDE- IMPACT ON ECONOMIC GROWTH IN DEVELOPING COUNTRIES

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CHAPTER I

INTRODUCTION

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 is the largest democracy with consistent economic growth rate since independence. India is also third largest scientific and technological workforce. In agriculture India produces sugar, groundnut, tea, fruits, rice, wheat, Vegetables and Milk in a large scale. With regard to demographic profile more than 720 billion i.e. one third of its population live in rural areas. Despite these developments, there is a wide gap between rural and urban India with respect to technology, living condition, economic empowerment etc.¹

Many in rural India lack access to education, nutrition, health care, sanitation, land and other assets and they are trapped into poverty. In rural India there is high number of Infant Mortality with low Life Expectancy at Birth Rate. Rural India mostly depends on agricultural sector. The growth rate in agricultural sector (primary sector) is 2-3 % when compared to secondary and tertiary sector which are growing at the rate of 8-12 %. Due to this there is a large scale migration of labour forces from rural to urban in search of employment. 8-12 % growth rate in the secondary and tertiary sector help Urban India as an emerging global information based economy still urbanization of poverty is a major concern.²

1.1 What is ‘Rural’ and ‘Urban’?

To date, most development theory and practice have focused on either “urban” “rural” issue with little consideration of the interrelations between the two. By contrast, several empirical studies show that the linkages between urban centres and the countryside, including

¹ Kedar Nath Prasad, *India’s Rural Problems*, Concept Publishing Company, California, 2007, p.117.

² *Ibid*, p.118.

movement of people, goods, capital and other social transactions, play an important role in processes of rural and urban change. Within the economic sphere, many urban enterprises rely on demand from rural consumers, and access to urban markets and services is often crucial for agricultural producers. In addition, a large number of households in both urban and rural areas rely on the combination of agricultural and non-agricultural income sources for their livelihoods.

Although there is a wide variation on the definition of rural and urban areas, we have considered the definitions from a few reliable sources to maintain consistency and equity in the whole project.³ The sources which have been considered are:

1.1.1 Census of India(1971) Definitions

The urban area of the country was defined in 1971 census as follow:

- a. all places with a Municipality, Corporation or Cantonment and places notified as town area
- b. all other places which satisfied the following criteria:
 - i. a minimum population of 5000,
 - ii. at least 75 percent of the male working population are non-agriculturists, and
 - iii. a density of population of at least 1000 per sq. mile (390 per sq. km.).⁴

However, there are urban areas which do not possess all the above characteristics uniformly. Certain areas were treated as urban on the basis of their possessing distinct urban characteristics, overall importance and contribution to the urban economy of the region.

The definition of urban area in 1961 Census was practically the same as in 1971 Census except that an area with at least 75 percent of total (and not male only as in 1971 Census) working population dependent on non-agricultural pursuits and fulfilling other criteria mentioned in paragraph above was treated as urban.⁵

³ Sneh Sangwan & Randhir Singh Sangwan, *Rural-Urban Divide: Changing Spatial Patterns of Social Variables*, Ashok Kumar Mittal Concept Publishing Company, New Delhi, 2003, p.16.

⁴ Charles M. Becker, Jeffrey G. Williamson & Edwin S. Mills, *Indian Urbanisation and Economic Growth Since 1960*, John Hopkins University Press, Michigan, 2009, p.301.

⁵ Retrieved from, <http://censusindia.gov.in/Metadata/Metada.htm>, at 10:00 on 01-04-2012.

The definitions of urban area adopted for 1981 and 1991 Censuses were the same as those for 1971 Census; but in 1991 Census, a density of at least 400 persons per sq. km. was the criteria instead of b (iii) given above.

The rural sector covers areas other than the urban areas. The rural areas are composed of whole villages as well as part villages. A village includes all its hamlets. When part of a revenue hamlet is treated as urban area, the rural part of the revenue hamlet is termed as part village. Some rural areas may be urbanised and some urban areas may be declared as rural during inter-census periods. If any sample village is found to have been urbanised after the latest census, it is first investigated whether the urban frame (as prepared in the latest Urban Frame Survey of NSS) of the town with which the village has been merged includes that village or not. If the town frame contains that village then no rural survey is conducted in that village. Otherwise, the village is surveyed in the usual manner although it has become an urban area; because, if the village is not surveyed it will be left out from both rural and urban areas. However, in case a town or part of a town is found to have been converted into rural area, then also it is surveyed and considered as an urban area since the rural frame does not contain any part of that town. Such cases, however, are extremely rare.⁶

1.1.2 Census of India (2001) Definitions

In the Census of India 2001, the definition of urban area adopted is as follows: (a) All statutory places with a municipality, corporation, cantonment board or notified town area committee, etc. (b) A place satisfying the following three criteria simultaneously:

- a. a minimum population of 5,000;
- b. at least 75 per cent of male working population engaged in non-agricultural pursuits; and
- c. a density of population of at least 400 per sq. km. (1,000 per sq. mile).⁷

For identification of places which would qualify to be classified as 'urban' all villages, which, as per the 1991 Census had a population of 4,000 and above, a population density of 400 persons per sq. km. and having at least 75 per cent of male working population engaged in non-

⁶ S.M. Shah, *Growth Centres for Rural & Urban Development*, Abhinav Publications, New Delhi, 2006, p.72.

⁷ C. Chandramouli, *Census of India, 2001: Paper, Volume 2001, Issue 3*, Director of Census Operations, New Delhi, 2010, p.4.

agricultural activity were considered. To work out the proportion of male working population referred to above against b) (ii), the data relating to main workers were taken into account.

An Urban Agglomeration is a continuous urban spread constituting a town and its adjoining urban outgrowths (OGs) or two or more physically contiguous towns together and any adjoining urban outgrowths of such towns. Examples of OGs are railway colonies, university campuses, port areas, etc., that may come up near a city or statutory town outside its statutory limits but within the revenue limits of a village or villages contiguous to the town or city. Each such individual area by itself may not satisfy the minimum population limit to qualify it to be treated as an independent urban unit but may deserve to be clubbed with the town as a continuous urban spread.⁸

For the purpose of delineation of Urban Agglomerations during Census of India 2001, following criteria are taken as pre-requisites: (a) The core town or at least one of the constituent towns of an urban agglomeration should necessarily be a statutory town; and (b) The total population of all the constituents (i.e. towns and outgrowths) of an Urban Agglomeration should not be less than 20,000 (as per the 1991 Census). With these two basic criteria having been met, the following are the possible different situations in which Urban Agglomerations would be constituted: (i) a city or town with one or more contiguous outgrowths; (ii) two or more adjoining towns with their outgrowths; and (iii) a city and one or more adjoining towns with their outgrowths all of which form a continuous spread.⁹

1.1.3 General Definitions

The general idea of urban areas relates to a town or city that is free-standing, densely occupied and developed with a variety of shops and services. Three approaches are commonly used in determining urban perimeters: (i) tracing the extent of the built up area; (ii) classifying levels of population density; and (iii) plotting the functional area of the town which includes not only the built up area but settlements in the countryside. Furthermore, a culture of impersonal and anonymous relationships has been used to describe urban populations.

⁸ Retrieved from, [http://www.iipservis.nic.in/Articals/SJTG26-1_Bhagat_article%5B1%5D\(Article_10\).pdf](http://www.iipservis.nic.in/Articals/SJTG26-1_Bhagat_article%5B1%5D(Article_10).pdf), at 20:00 on 01-04-2012.

⁹ Balram Dogra & Karminder Ghuman, *Rural Marketing: Concepts and Practices*, Tata McGraw-Hill Publishing Company Limited, New Delhi, 2008, p.2.

The concept of 'rural' is more complex and multidimensional. One problem lies in capturing the diversity of types of rural areas that exist. These can, for example, range from small settlements on the fringe of large towns and cities to remote villages and hamlets and from 'green belt' agriculture to areas of extensive arable farming or grazing. Another complication lies in the economic and social changes that have taken place in rural areas which create interrelationships with urban areas and cultures. For example, there has been an increase in commuting, especially of the urban work force choosing to reside in rural areas. Nevertheless, rural areas are characterized by a more personal and intimate web of social relationships. From a review of definitions of 'rural' five dimensions can be identified: (i) negative, i.e. not urban; (ii) low population density; (iii) extensive land use; (iv) primary economic activity and employment; and (v) community cohesion and governance.¹⁰

1.2 Linkage between Rural and Urban Development

There is a linkage between the rural and urban development. These linkages matter because rural and urban livelihoods are interconnected economically, financially, and socially. From a rural perspective, most farmers depend on urban markets to secure their livelihoods. Rural households also depend on urban centers or small towns for various services (e.g., hospitals, banks, and government offices) and for the provision of various private and public goods. Moreover, the rural sector benefits from remittances sent by urban-based family members.¹¹

Likewise, urban areas are linked to the rural sector through several channels. For example, various urban businesses and enterprises depend on rural demand for their goods and services. They also rely on rural areas for the supply of raw materials. Urban consumers, on the other hand, benefit from cheap and sustained food supply from rural areas. Furthermore, many poor urban households partly depend on rural activities (e.g., farming) for their livelihoods. The rural sector can also act as a buffer from the impact of macroeconomic shocks on the urban economy. Links between the rural and urban sectors also include flows of information, such as

¹⁰ Michael Bunce, *Rural Settlement in an Urban World*, Taylor & Francis Publishers, Cambridge, 1982, p.5.

¹¹ Kenneth Lynch, *Rural-Urban Interaction in the Developing World*, Routledge Publishers, New York, 2005, p.17.

markets and employment opportunities, as well as flows of people moving between rural and urban centers on a temporary or permanent basis.¹²

Development policies that facilitate these rural-urban linkages can promote economic growth and poverty reduction. But how does this balancing and synergistic relationship work? Economic theory suggests that resources should move freely so that marginal returns are equalized between sectors and regions. An increase in agricultural productivity may precede the growth of urban settlements. But as new innovations take place in the urban sector, urban labor productivity and wages rise, making migration from the rural to urban sector attractive. In the meantime, urban development may also improve access to capital, inducing further mechanization or other innovations relevant to agricultural production. As a result, agricultural productivity grows, narrowing the productivity and income gaps between rural and urban areas. When innovations take place again in the urban sector, the gap in productivity and income widens between the two sectors. Rural labor begins to migrate to the urban sector, and capital moves to rural areas. A new equilibrium emerges.

This process of moving from disequilibrium to equilibrium due to technological innovations in both sectors is the major source of economic growth and development. But many developing countries disrupt this natural economic development process. Very often governments interfere in favor of the urban sector, distorting capital and labor markets to favor urban over rural areas, in an attempt to jumpstart development or leapfrog this process. As a result, overall efficiency is lost, as resources do not flow to their “free-market” locations where they would naturally earn the highest rate of return. As a consequence, the rural-urban gap increases, and the natural growth that would occur in rural areas, as well as in urban areas, is circumvented.¹³

In fact, in developing countries, we typically observe the coexistence of a modern urban sector and a traditional rural sector. In these countries, the urban population is often better off than their rural counterparts. This rural-urban divide evolves when governments in developing countries give preference to the urban sector in their public policies. Such preferential practices

¹² Bimalendu Bhattacharya, *Urban Development in India: Since Pre-Historic Times*, Shree Publication House, New Delhi, 2009, p.10.

¹³ Retrieved from, http://www.fig.net/pub/morocco/proceedings/PS1/PS1_1_okpala.pdf, at 21:00 on 02-04-2012.

may include, for example, price policies, public investment, and welfare transfers that favor the urban over the rural population. In part this urban bias may also occur because urban centers in developing countries may be better organized politically and thus have greater influence on policy makers than the rural population.¹⁴

1.2.1 Reasons for the Rising of Urban Bias

We see the effect of urban bias in the gap between urban and rural areas in terms of labor productivity, per capita income, and poverty rates. The greater the gaps among these indicators, the larger are the bias. Naturally, per capita income and productivity differences have to be adjusted by labor quality and cost of living in the two sectors. For India and China, urban bias has usually arisen from the combination of three different but related policies.

- a. The first and most common one relates to policies affecting the terms of 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.¹⁵
- b. Second, overvalued exchange rates in most developing countries exacerbate this bias, adversely affecting all traded goods, but frequently agricultural products in particular. If labor and capital are fully mobile, they may move towards the urban or industrial sectors if the returns there are more favorable. In the long run, however, even in the presence of distortion in the output markets, the marginal returns to different factors between rural and urban sectors will converge as long as there is no distortion in the factor (input) markets. Unfortunately, many countries like China have also heavily distorted factor markets by restricting the movement of labor and capital. The Household Registration System, or *hukou*, in China, for example, did not allow farmers to move to urban centers despite the presence of a huge labor surplus in the rural sector and the lower marginal return to labor there. After the reforms in 1978, farmers were allowed to migrate to urban areas, but many restrictions on their employment in urban centers remain.

¹⁴ Mahmoud Bah, *Rural-Urban Transformations*, IIED Publishers, New Delhi, 2003, p.23.

¹⁵ Retrieved from, <http://lanic.utexas.edu/project/etext/llilas/cpa/spring06/welfare/corbridge.pdf>, at 10:00 on 03-04-2012.

- c. Third, governments' tendencies to favor urban centers are reflected in their spending policies. Like other government policies, public spending endeavors to promote more equitable development and increase efficiency by correcting market failures. In many cases, governments may have to trade off efficiency and equity goals. But it is also important to recognize that equity-efficiency trade-offs are not always present. 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. 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.

1.2.2 Consequences of Urban-Biased Policies

- a. First, these policies lead to larger gaps between rural and urban areas in terms of many development indicators, such as education, health, nutrition, per capita income, and poverty.
- b. Second, rising inequality may lead to tensions that constrain the prospects for future growth through a variety of social, political, and economic mechanisms.¹⁶

1.3 A fundamentally Unbalanced Relationship

Historians have suggested that when agricultural development made it possible for farmers to produce a surplus, towns developed because of economies of scale in the storage of the surplus and the need for its protection. Once there was a production surplus, comparative advantages led to trade in agricultural products between different locations. Transfer nodes for agricultural products turned into trading posts and these in turn became trading towns.¹⁷

Towns could develop only if three conditions were met:

¹⁶ Ashutosh Varshney, *Beyond Urban Bias*, Frank Cass and Company Limited, London, 1993, p.249.

¹⁷ Retrieved from, <http://www.unescap.org/pdd/prs/ProjectActivities/Ongoing/Rural-Urban%20Linkages/Rural-Urban%20Linkages-policyimp.pdf>, at 21:00 on 04-4-2012.

- a. an agricultural surplus, large enough to support the urban population;
- b. differences in productivity that generated comparative advantages, large enough to offset transport costs;
- c. economies of scale in transportation that made large-scale trade and central market places efficient.¹⁸

Whatever the exact sequence, urban areas developed as the seats of power and wealth, supported by religion and living off the agricultural surplus. Towns and later cities became home to the elite. The urban population formed a small, but powerful and influential segment of the total population due to their link to the ruler, the religion and the military. The large majority of the population lived in the countryside, was involved in agriculture and supplied food and labour to the cities through the market towns. As centres of power, religion and wealth, traditional cities and towns were distinct from the countryside. They were centres of civilization, while rural areas were places close to nature where the simple, hard-working people lived and toiled. Urban dwellers developed a sense of superiority over the peasants in the countryside.¹⁹

With the elite in the urban areas and the masses in the rural areas, the distinction between urban and rural society also became an ideological and political one. The ideology emphasized the need for urban areas with rulers, traders and priests. The ruler ensured law and order so that the rural population could farm. The traders were prepared to leave their urban homes to buy the agricultural surplus from the farmers to sell in far-away places. Religious leaders gave meaning to life and sanctioned the status quo; they prayed for the well-being of the ruler and his people, so that all would prosper.²⁰

The ideology dictated that the common people should live on the land and off the land, and that farming was the natural way of life. Urbanites would confess that they preferred to live in the rural areas, but that this would only be possible once they were old and retired. In the meantime, it was up to the rural population to supply them with food in a mutually beneficial

¹⁸ R.B. Mandal, *Introduction to Rural Settlements*, Ashok Kumar Mittal Concept Publishing Company, New Delhi, 2001, p.328.

¹⁹ *Ibid*, p.329.

²⁰ Alister Scott, Alana Gibert & Ayele Gelan, *The Urban- Rural Divide: Myth or Reality*, Macaulay Land Use Research Institute, Macaulay, 2007, p.27.

symbiosis. Urban areas could acquire the agricultural surplus at a fair price from the farmers, but, more often, they would simply take it from the rural areas at any price or no price to the farmers. Because towns formed a real political-commercial-religious complex, farmers probably saw it simply as their duty to supply the urban areas with food and other products from the land. Rulers could tax the farmers for their land, their products and their income.²¹

The inherent advantages of urban settlements over rural ones are their economies of scale and agglomeration. The large size of the urban population creates a high demand for goods and services and this promotes increased supply of goods and services at lower costs of production per unit. The availability of wide range of different resources in a small area promotes specialization and innovation. The scattered pattern of rural settlements and the inadequate communication and transport networks disadvantages the rural population when it comes to organization and the articulation of needs, priorities and preferences through political processes. The fact that officials in urban areas often take decisions on behalf of the rural population about their future and the use of their natural resources is an expression of this imbalance in political power between urban and rural areas.²²

1.4 Historical Perspective of Rural-Urban Dynamic in China and India

1.4.1 China

The urban bias that prevails in China finds its roots in the country's history. 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.²³ 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 labeled the "iron rice bowl," urban unemployment was virtually nonexistent. These jobs also

²¹ *Ibid*, p.28.

²² Retrieved from, <http://economics.ouls.ox.ac.uk/9480/>, at 12:00 on 05-04-2012.

²³ John Knight & Lina Song, *The Rural-Urban Divide: Economic Disparities and Interactions in China*, Oxford University Press, Oxford, 1999, p.23.

provided urban residents with many benefits, such as free or subsidized housing and health care. On the other hand, rural residents were confined to their production units where they produced agricultural commodities under strict state planning. The government was able to monopolize agricultural production in the rural sector while controlling the distribution of food and other products in the urban sector. These commodities had to be sold at government prices that were lower than international prices. Huge rents were thus transferred to urban centers for the development of heavy industry. The surpluses arising from the agricultural sector not only contributed to capital accumulation in industries, but also supported urban-based subsidies.²⁴

1.4.1.1 Household Registration System, or *Hukou*

The strict control of rural-to-urban migration through *hukou* reinforced the segmentation of China's rural and urban sector. *Hukou*, put in place in the 1950s, assigned a place of residency and employment for the entire population, and defined one's rights for social and economic activities within a specified locality. Because of *hukou*, the share of urban population remained constant at 20 percent from 1952 to 1970s.²⁵ 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 labor, and to increase industrial investments. All these elements contributed to the concentration of capital investment in the urban sector. Consequently, even accounting for cost-of-living differences, the income of urban workers was far greater than that of their rural counterparts. In 1978, for instance, per capita income in rural areas was only 34 percent that in urban area. Moreover, poverty in the rural sector was far more prevalent than in the urban sector. More than 75 percent of rural households were living below the poverty line in 1980 compared to 8 percent of their urban counterparts.²⁶

1.4.1.2 Economic Reforms in 1978

²⁴ Jeremy Brown, *Crossing the Rural-Urban Divide in Twentieth-Century China*, ProQuest Publishers, 2008, Beijing, p.29.

²⁵ Fei-Ling Wang, *Organising through Division and Exclusion: China's Hukou System*, Stanford University Press, California, 2005, p.67.

²⁶ John R. Logan, *Urban China in Transition*, Blackwell Publication Limited, London, 2008, p.208.

The economic reforms in 1978 promoted overall economic growth but included provisions focused on increasing farmers' income. In fact, the first phase of the economic reforms (1978 to 1985) targeted the rural sector.

- a. During the first phase of economic reforms was the emergence of rural industry clusters known as Township and Village Enterprises (TVEs). The development of TVEs strengthened the linkages between the rural and urban sectors due to the relaxation of restrictions on movement of labor out of agricultural production. For example, urban industries outsourced part of their production to the TVEs to benefit from the cheaper rural labor force, existing machineries, and more relaxed enforcement of environmental, health, and safety regulations in rural areas. Urban industries also used labor and raw materials from the rural areas, which led to an increase in agricultural labor productivity and farmers' income. These links promoted the development of many small rural towns that served as a bridge between rural areas and urban centers. These reforms helped to counter the earlier urban bias. Rural per capita income tripled between 1978 and 1985. Consequently, the ratio of urban-to-rural per capita income fell below 2 during 1983-85, a historic low in China since 1949.²⁷
- b. The second phase of the reform program (1984-1991) broadened the reforms to include promotion of industrial enterprises in urban areas, creation of market institutions, and dismantling of the central planning system. But these policies caused high inflation in the economy, which in turn led to a deterioration of the terms of trade for agriculture. Soaring inflation led the government to allocate significant subsidies to urban workers and to increase subsidized credit for the urban sector during this period. Not surprisingly, rural-urban consumption and income differentials increased during the second phase of reforms and reached a historic high of 3.5 in 1993 and 1994.²⁸
- c. The third phase of the reform program (1993 to the present) established a socialist market economic system, under which the economy continues to remain primarily under public

²⁷ Nicholas R. Lardy, *Foreign Trade and Economic Reform in China, 1978-1990*, Cambridge University Press, Cambridge, 1995, p.70.

²⁸ Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform, 1978-1993*, Cambridge University Press, Cambridge, 1999, p.97.

ownership but market forces are allowed to play a fundamental role in resource allocation and distribution decisions. One of the most significant developments during this period is rapid urbanization. The rate of job creation in the urban sector was five times more the corresponding rate in the rural sector during the 1990s. Cities have become an attractive place to migrants. Millions have flocked to the urban areas of China in the past decade. An estimated 100 million rural workers and self-employed traders moved to the cities and coastal regions during the 1990s.²⁹

1.4.2 Indian Perspective

1.4.2.1 First three Five-Year Plan Periods

India has followed a somewhat similar path. During the first three Five-Year Plan periods (1951-1966), the newly independent India emphasized self-reliance and gave priority to rapid industrialization. This development strategy required a substantial amount of investment in urban industries from the state at the expense of the agricultural sector. Rural outlays, however, decreased thereafter to 20-25 percent as India formally adopted the socialist strategy of heavy industrialization during the Second Five Year Plan (1956-61).³⁰ Under this strategy, agricultural policy was infused with a pro-urban bias. In order to provide cheap food and cheap basic inputs for industrial development, farm prices were kept artificially low and agricultural exports were curtailed through quantitative restrictions and an overvalued exchange rate. Moreover, basic food products were made available at subsidized prices in urban areas and food deficit regions.³¹

1.4.2.2. After Mid- 1960s

After the mid-1960s, India's government began to prioritize the development of the agricultural sector. The government adopted an agricultural strategy aimed at improving productivity in the agricultural sector. Under this strategy, various agricultural price support mechanisms and input subsidies were introduced, which helped the success of India's Green Revolution. Emphasis was also given to the development of small-scale industries in rural areas.

²⁹ *Ibid*, p.98.

³⁰ Ajmer Singh Malik, *Concept and Strategy of Rural Development*, MD Publications Private Limited, New Delhi, 1995, p.49.

³¹ Retrieved from, <http://www.indiaonline.in/about/Profile/Economy/PlanningCommission/Five-Year-Plans.html>, at 19:00 on 07-04-2012.

Various measures were adopted, including subsidized loans to promote the development of rural industries.³²

1.4.2.3 Reforms adopted between 1991-1993

Beginning in 1991, India adopted a series of sweeping macroeconomic and structural reforms in nonagricultural sectors including industry, exchange rate, foreign trade, and investments. Although the reforms were implemented in the nonfarm sector, they affected agriculture in at least two important ways.

- a. First, the reforms adopted between 1991 and 1993 resulted in rapid economic growth and therefore to a rise in per capita income. These improvements had a significant impact on food demand. Higher per capita incomes-which grew at 4.5 percent per annum in the early 1990s compared to 3.6 percent in the 1980s (World Bank 2004)-led to the diversification of food demand for non-foodgrain crops such as fruits and vegetables, as well as meat, poultry, and dairy products from a rising middle class.
- b. Second, the decrease in industrial protection significantly enhanced the incentive framework for the sector, as the domestic Terms of Trade (TOT) between agricultural and industrial prices improved during the 1990s. The TOT rose from 0.9 to 1.2 between 1991 and 2000.³³

Despite these improvements, government fiscal and investment policy is still oriented towards the urban areas. New investments under the Structural Adjustment Policies (SAPs) privileged mostly urban areas as well as more prosperous regions. The focus of government policies, subsidies, and fiscal incentives has shifted away from agriculture towards industry under the SAPs. For example, government subsidies are directed mainly towards high-skilled

³² Atul Kohli, *Poverty amid Plenty in the New India*, Cambridge University Press, New York, 2012, p.202.

³³ *Supra* note 31.

industries such as the software sector. These industries also benefit from exemptions from custom duties and corporate income taxes.³⁴

As a result of this urban bias in policies, an income gap also exists between rural and urban residents in India, even after adjusting for cost-of-living differences, although it is smaller than that in China. In 1951, the ratio of urban to rural per capita mean income was 1.4, and gradually increased to 1.6-1.7 during 1954-55. It then declined to a historic low of 1.3-1.4 during 1966-69 due to the adoption of new technologies and greater agricultural production during this initial stage of the Green Revolution. But the ratio has stayed at 1.5-1.6 since then. The poverty rate in the rural areas is also higher than that in urban areas, although the difference is much smaller than in China. In 1999/2000, the incidence of poverty averaged 27 percent in the more populous rural areas, 3 percentage points higher than the poverty rate of 24 percent in the urban areas.³⁵

³⁴ B. Satyanarayan, *Developmental Problems and Policies in India: An Appraisal*, Ashok Kumar Mittal Concept Publishing Company, New Delhi, 2000, p.139.

³⁵ *Ibid*, p.140.

CHAPTER II

LINKAGES BETWEEN THE RURAL AND URBAN SECTOR

2.1 Introduction

Rural–urban linkages include flows of agricultural and other commodities from rural based producers to urban markets, both for local consumers and for forwarding to regional, national and international markets; and, in the opposite direction, flows of manufactured and imported goods from urban centres to rural settlements. They also include flows of people moving between rural and urban settlements, either commuting on a regular basis, for occasional visits to urban-based services and administrative centres, or migrating temporarily or permanently. Flows of information between rural and urban areas include information on market mechanisms -from price fluctuations to consumer preferences – and information on employment opportunities for potential migrants. Financial flows include, primarily, remittances from migrants to relatives and communities in sending areas, and transfers such as pensions to migrants returning to their rural homes, and also investments and credit from urban-based institutions. These spatial flows overlap with inter-linkages between sectors both at the household level and at the level of local economies. They include backward and forward linkages between agriculture and manufacturing and services, such as production inputs and the processing of agricultural raw materials. Most urban centres, specially small and intermediate ones, rely on broad-based demand for basic goods and services from surrounding populations to develop their secondary and tertiary sectors. Overall, synergy between agricultural production and urban-based enterprises is often key to the development of more vibrant local economies and, on a wider level, to less unequal and more “pro-poor” regional economic growth. Whilst, to some extent, these flows and linkages exist between all rural and urban areas, their scale and strength are determined by the nature of economic, social and cultural transformations.³⁶

It is common in developing countries that the relationship between the state and the peasants is coercive and that the relationship between rural and urban sectors is urban-biased. This is opposite to the situation in developed countries, where agriculture and farmers are

³⁶ *Supra* note 1, p.118.

protected by government policies. The linkages can be divided further into three broad categories: the global, the national and the local levels which are discussed in the chapter.

2.2 At the Global Level

At the global level, the liberalization of trade and production has changed or reshaped rural—urban linkages in most regions. The increased availability of imported manufactured and processed goods affects consumption patterns in both rural and urban settlements; since these are often cheaper than locally produced goods, local manufacturers and processors can be negatively affected. This is especially the case for small-scale enterprises using traditional or limited technology and often employing women, for example in traditional cloth weaving in southeast Nigeria and vegetable oil production in Tanzania.³⁷

In the agricultural sector, trade in export crops is largely controlled by international traders who tend to by-pass local urban centres for processing and marketing, and who also retain much of the added value and do not necessarily invest it in the producing region or even nation. Moreover, stringent quality controls and quantity requirements, linked to demand in high-income nations and the preference of larger retailers there, often exclude small-scale farmers who do not have the financial capital to purchase the necessary inputs. At the same time, the increase in the number of international tourist resorts and the establishment of export processing zones have created new, albeit limited, areas of employment that, in many cases, rely on migrant workers, especially women.³⁸

An often overlooked aspect of globalization is its impact on social and cultural values. Increased access to information on different and often distant places has an important role in younger generations' desire to migrate to experience the wider world, and to move out of farming in favour of more "modern" types of employment in services and- albeit less SO - manufacturing. Changing employment opportunities can have a profound impact on traditional social structure. The domestic trade liberalization in Tanzania has opened up new areas for income generation, especially petty trade, which allow young people to move out of unpaid family farming — especially young women who, traditionally, do not inherit their parental land.

³⁷ *Supra* note 3, p.45.

³⁸ *Ibid*, p.46.

In South India, young men from landless low castes, who find employment in urban centres, openly defy the caste system as they are no longer dependent on their upper caste, land-owning employers for a living. Whilst these transformations clearly encourage individual independence, and should be welcomed for breaking up social relations based on power imbalances, their economic and social consequences are far reaching and still not sufficiently understood. What is clear is that the assumptions of rural households and communities as relatively stable units of production and consumption are no longer valid in many locations, and this needs to be taken into account in the formulation and implementation of rural development initiatives.³⁹

2.3 At the National Level

At the national level, macroeconomic policies linked to reform and adjustment have an impact on rural—urban linkages. The sharp reduction in subsidies to agricultural inputs has affected the incomes of small-scale, under-capitalized farmers in most nations, whilst the retrenchment of workers in the formal sector has deepened financial insecurity in the urban centres. At the same time, the increase in the cost of food and the introduction of user fees for education and health services has forced many households to seek cash incomes through employment diversification -including non-farm occupations for rural residents, often located in urban centres -migration and urban agriculture.⁴⁰

The increased emphasis on producers' direct access to markets, following the dismantling of marketing boards which used to be the main outlet for small agricultural producers, has strengthened the links with urban centres, where local markets and links to wider regional and national marketing systems are located. This is not without problems, however, as inadequate infrastructure and storage and processing facilities can hamper increased returns for producers.

Some factors can be generalized as having a key role in the increase in the scale of rural-urban linkages. Decreasing incomes from farming, especially for small-scale producers who, because of lack of land, water or capital, are unable to intensify production and switch to higher value crops, mean that growing numbers of rural residents engage in non-farm activities that are often located in urban centres. For those who continue farming, direct access to markets is

³⁹ *Supra* note 1, p.87.

⁴⁰ *Ibid*, p.88.

essential in the wake of the demise of parastatal marketing boards - and markets are also usually located in urban centres. Better access to markets can increase farming incomes and encourage shifts to higher value crops or livestock. Population growth and distribution patterns affect the availability of good agricultural land and can contribute to rural residents moving out of farming. With the expansion of urban centres, land uses change from agricultural to residential and industrial, and in the pen-urban interface these processes go hand in hand with transformations in the livelihoods of different groups -with the poorest often losing out.

Whilst adjustment policies and economic reform have had a generally negative impact on low-income groups in both rural and urban areas, there are sometimes significant differences in the transformations that have taken place in the past 10-15 years, depending on each nation's position in the global economy, its resource base and technological know-how. Hence, some nations with higher levels of educational and technical skills, and with national governments able and willing to invest in infrastructure facilities, have been able to attract foreign direct investment - albeit usually in circumscribed areas.⁴¹

In India, this can be seen in the establishment of food processing centres and sourcing stations by multinational companies such as Bharti-walmart and Reliance industries in the rural areas to source fresh produce directly from the farmers. Further, the co-operative Amul which revolutionized milk production in India is one of the biggest examples of national linkages.⁴²

2.4 At the Local Level

At the local level, the nature and scope of rural-urban interactions is influenced by several factors, ranging from geographical and demographic characteristics (including the nature of agricultural land, population density and distribution patterns) to farming systems (based on land tenure and access to natural resources) to the availability of roads and transport networks linking local settlements to a number of urban centres where markets and services are located. Local governments, whose role in many nations has dramatically increased, at least in theory, with decentralization, can play an important role in supporting positive rural-urban linkages.

⁴¹ *Supra* note 3, p.46.

⁴² *Ibid*, p.47.

Local government and other local actors are best placed to identify local needs and priorities and provide an adequate response to them. Local decision-making can help avoid the neglect of forward and backward linkages between agriculture and services and manufacturing. It can also negotiate and regulate the use of natural resources by rural and urban residents and enterprises, which can otherwise become a major cause for conflict. However, although decentralization has great potential with regards to efficiency and democratic accountability, it is often accompanied by *costs* and constraints. Local government may be unable to provide the services needed, either because of the reduction in central government public investment or because it fails to generate sufficient revenue at the local level. And whilst local decision-making, supported by adequate resources, can support positive rural-urban linkages, wider issues such as land tenure systems, institutional structures of markets and broader national development strategies are likely to affect local initiative. Better integration of local development strategies in national planning is therefore crucial. Finally, especially in nations where decentralization is relatively recent, substantial efforts are necessary to ensure the legitimacy and the capacity of local institutions to carry out their new functions.⁴³

⁴³ Shenggen Fan & Joanna Brzeska, Striking a Balance: Mitigating Rural-Urban Disparities in China & India, *Rural*, Volume 21, Issue 1, Washington D.C., 2008.

CHAPTER III

RURAL URBAN DIVIDE- IMPACT ON ECONOMIC GROWTH IN CHINA

Governments in most developing countries have adopted policies that discriminate against agriculture. Interventions take a variety of forms, including the pricing and distribution of agricultural commodities and inputs, and fiscal and credit policies that favor the industrial sector. Governments also use indirect instruments, such as trade regimes and exchange rate policies, which often amplify the discriminatory impacts against the countryside. The results of a large body of research indicate that these interventions introduce distortions in the economic systems, cause large income transfers away from the rural sector, and, ultimately, lead to slower agricultural and overall economic growth.⁴⁴

3.1 Introduction

China's is an important economy. It accounts for about 20% of world population and for nearly 20% of the world's poor. Moreover, it is becoming more important. During the period of economic reform – roughly the last 20 years – it has achieved a remarkable rate of economic growth: something like 8% per annum. By comparison with other communist or ex-communist countries, it has so far made a smooth transition from a planned economy towards a market economy.⁴⁵

3.2 Rural-Urban Divide

In 1949 almost 90% of the Chinese population was classified as rural. This census definition of rural and urban corresponds closely to the administrative division. In 1999 the rural population accounted for 69% of the total. Despite the urbanization that goes along with economic development, the rural population has grown in absolute terms and the great majority of Chinese people continue to live in rural areas. Almost all of China's arable land was already in use in 1952, and yet over the next 50 years the rural population was to grow by over 350 million. This growing pressure on the land posed a threat to both rural and urban living standards.

⁴⁴ Michael Lipton, *Why Poor People Stay Poor: Urban Bias in World Development*, Harvard University Press, New York, 2000, p.151.

⁴⁵ Xin Meng, *Labour Market Reform in China*, Cambridge University Press, Cambridge, 2000, p.45.

Both rural and urban income rose very slowly until the process of economic reform began in 1978. Throughout the central planning era, the ratio of urban to rural income exceeded 2 to 1, and they were particularly high (over 3) in the mid-1950s. The ratios narrowed over the years 1978-1985, when rural economic reforms - the disbanding of the communes and the restoration of household production - took place. As urban reforms began and accelerated after 1985, urban incomes grew rapidly. The rural-urban divide actually increased, and in the year 2000 the ratios (2.8 for income and 3.0 for consumption) were higher than they had ever been throughout the economic reform era.⁴⁶

The rural-urban divide is not confined to conventionally measured income. It is apparent also in education, health care and housing. The most important factor influencing a person's educational attainment, or enrolment, after his age, is whether he lives in a rural or urban area. The standardized mean difference in educational attainment is no less than 4.6 years in favour of urban-dwellers. Moreover, school cost per pupil, public subsidy per pupil, and the average quality of teachers, are all far higher in urban than in rural areas.

There is a considerable gap between urban and rural provision of, and access to, health services. The rural population is at a disadvantage in both quality and quantity of health care. Moreover, urban services are much more heavily subsidized, so that rural people have to pay no less than urban people for health care. Yet the difference in mean incomes contributes to the contrast in the underlying healthiness of people in urban and rural areas.⁴⁷

3.3 Present Scenario

The steady declines of the rural-urban gap since 1993 are due to the effects of a combination of factors: the pursuit of balanced regional growth, sustained gains in rural labor mobility, further reductions in discriminatory agricultural pricing, and the deterioration of urban employment conditions.⁴⁸

⁴⁶ NBS (National Bureau of Statistics), *China Statistic Yearbook 1998*, China Statistic Press, Beijing, 1998, p.12.

⁴⁷ M.P. Todaro, *A Model of Labour Migration and Urban Unemployment in Less Developed Countries*, American Economic Review, March, New York, 2004, p.134.

⁴⁸ A.S. Bhalla, *Recent Economic Reforms in China and India*, Asian Survey, Vol.35, Issue 6, June 1995.

Regional growth policies have been modified to reflect more balance. In 1993, the central government began giving higher priorities to the opening and development of more regions in the central and western parts of China. This initiative was known as “the overall open up strategy in coastal areas, on river sides, and along border areas.” Beyond the original four special economic zones and 14 open cities, local governments, with approval from the center, have experimented with many other regional efforts to speed up reforms and the opening process. Because these new initiatives penetrated inner and rural regions, they had the effects of raising relative rural earnings.⁴⁹

Rural labor mobility has continued to improve in this period, partly because the enlarged income gap has provided a strong “pull force” and partly because some stringent rules of household registration have been relaxed. For instance, those who invest or contribute above a certain amount of money in cities may receive special household registrations. With the development of small towns, a series of policy changes have been made to approve urban registration with special circumstances, such as awarding urban status for children who plan to live with one of the parents, for spouses separated for a long time, and for the elderly who need to live with children in cities. The removal of rationing and the reforms in urban welfare provisions have also made it more feasible for rural labor migrants to make a living in the cities. The increase in agricultural prices has continued. In fact, the relative price level of agricultural products has reached an all-time peak in PRC history. Measured by producer subsidy equivalence, the policy direction towards agriculture has been moving from taxation to protection. The agricultural taxation defined on both direct and indirect sources experienced an enormous drop, from 88 per cent of agricultural output value in 1988 to less than 3 per cent in 1994.⁵⁰

In the meantime, urban unemployment has become increasingly serious with the progression of industrial structural reforms, combined with further employment reforms and over-capacity in production. In recent years, unemployment rates have risen sharply and many

⁴⁹ Yang Du, Albert Park & Sangui Wang, *Migration and Rural Poverty in China*, Journal of Comparative Economic, Beijing, 2005, pp.608-709.

⁵⁰ S. Fan & C. Chan-Kang, *Road Development, Economic Growth and Poverty Reduction in China*, International Food Policy Research Institute, Washington D.C., 2005, p.733.

more enterprises have been unable to pay wages because of the corporatization process of SOEs, the adjustment of industrial structure, and operation below capacity for many SOEs. It has been estimated that the urban unemployment rate is higher than 6.9 per cent and that the proportion of laid-off workers is 5 per cent, which accounts for a high share of total unemployment.⁵¹

Several factors have contributed to the high unemployment rate.

- a. First, a mild depression of the macro economy due to the lack of aggregate demand is a major cause of rising unemployment.
- b. Second, many sectors have lost their comparative advantage and competitiveness in the process of adjusting industrial structure. Many of these inefficient firms and industries survived during the centrally planned period, but now are prone to fierce competition from abroad and from the non-state sector. This process inevitably leads to structural and frictional unemployment in a transition period.
- c. Third, the recent reforms of SOEs have converted redundant workers into unemployed or laid-off workers, making the unemployment issue apparent. These three factors interact with each other and have resulted in high unemployment.

Although the rural-urban gap has declined in the recent years, whether the trend will continue depends on the orientation of the government's overall policy. It is very likely that the decline in urban welfare will induce new regulations to block rural workers from working in cities in order to reduce competition for urban employment. The interactions of pressure groups with the government and the reasons behind the choices of various government policies are issues of political economy to which we now turn.⁵²

3.4 Bridging the Rural-Urban Gulf

The most compelling reason for eliminating the rural-urban income gap is to improve economic efficiency. The disparity between the two sectors is both a potential source of social

⁵¹ D. Perkins & S. Yusuf, *Rural Development in China*, John's Hopkins University Press, London, 2000, p.67.

⁵² L. Putterman, *Continuity and Change in China's Rural Development: Collective and Reform Eras in Perspective*, Oxford University Press, New York, 2005, p.209.

and political instability and an important indicator of economic inefficiency. The cost of urban-biased interventions lies in the inefficiency of misallocating labor and other factors of production across the sectors, and these interventions may impede China's sustained growth in the long run. Although policies that favor urban residents may be needed in the short run to overcome interest groups and to advance economic reforms, the long-term objective of the government should be to promote the development of competitive factor markets, which implies the elimination of urban biased institutions and policies.

It is well documented by economists that when the income gap between rural and urban sectors is large, labor movements to cities or capital investments to rural regions may have immediate productivity effects. For China, this statement is not a hypothesis but a proven fact of past growth. Several studies have estimated that the labor movements from the low productivity sector (agriculture) to higher productivity sectors (say industry) were a major source of economic growth in China in the post-reform period. The contribution of labor mobility to total GDP growth rate ranges from 16 per cent to 20 per cent.⁵³

There are two sets of factors that have caused the existing rural- urban income gap.

- a. The first set is various interventions in the factor markets, which lead to distorted labor and capital concentrations across rural and urban regions. One such intervention is the restriction of labor mobility, where governments, especially those at the municipal level, continue to suppress rural labor migration to reduce competition for local workers. Another major intervention is the government's control over credit, which leads to allocations of capital that are biased against the rural sector. These two practices are inherited from the centrally planned regime. They have remained major obstacles to China's long-term growth.⁵⁴
- b. The second set of factors is the government's use of direct transfer programs to favor the urban sector, e.g. price subsidies. This type of intervention was non-existent in the pre-

⁵³ Thomas Rawski, *Economic Growth and Employment in China*, Oxford University Press, New York, 2002, p.89.

⁵⁴ Irma Adelman & David Sunding, *Economic Policy and Income Distribution in China*, Journal of Comparative Economics, Beijing, 1987, p.444.

reform period. It is an outgrowth of the dilemma that has confronted the Chinese government during reforms: its desire to improve the efficiency of the factor markets requires reforms (say, greater rural labor mobility) that could erode urban welfare (a tighter urban labor market). To escape the dilemma, the government increasingly has used direct transfers to protect urban income. This policy tool, unlike the employment policies and capital allocations, does not introduce direct distortions in the optimal allocation of productive inputs, but, it may introduce inefficiency through other indirect channels, such as the negative effects of inflation.

China's policy reform should aim at improving the functioning of factor markets. In addition to the direct income gains that will be realized by the owners of the resources, this direction of reforms is also consistent with the government's objective of achieving political stability. This is because improvements in factor market efficiency will lead to faster real economic growth, thus creating "a bigger pie." If needed, the government would have command over more resources to accomplish direct income transfers in order to win political support and to push forward economic reforms.⁵⁵

To continue intervening in the allocation of capital by providing more credit to inefficient SOEs in order to sustain jobs is a great mistake. This is because the practice will further undermine factor market efficiency. Similarly, the government should gradually relax the existing restrictions on labor mobility, which will allow workers to pursue better employment opportunities and, therefore, higher earnings. A concern is that both of these actions may cause a redistribution of income away from urban dwellers, resulting in political instability. In refuting this concern, we emphasize that the improved allocation of capital and labor may create real efficiency gains that will improve the government's budgetary conditions, for instance, through taxation. If the government has to offset a reduction in welfare for urban workers, it would have more resources to do so.⁵⁶ This package of policy reform would satisfy the government's short-

⁵⁵ J. Morduch & T. Sicular, *Politics, Growth and Inequality in Rural China: Does it Pay to Join the Party?*, *Journal of Public Economics* 77(3), Beijing, p.331.

⁵⁶ John Knight, Li Shi and Lina Song, *The Rural-Urban Divide and The Evolution of Political Economy in China*, Institute of Economics, Chinese Academy of Social Sciences, March, 2004, p.8.

term political needs while allowing it to pursue its long-term goals of improving factor market efficiency.⁵⁷

Urban residents have been protected by a variety of institutions and policies that are associated with the centrally planned system. The fact that urban labor has faced fierce competition in employment from rural workers during reforms reflects the government's past mistakes in pursuing heavy-industry-oriented development strategy. How and when their privileges should be removed involves efficiency, equity, and political considerations. Indeed, it is a political economy question. However, by economic efficiency criteria, there should be little doubt that a major goal of Chinese economic reforms is to quickly restore allocative efficiency.⁵⁸

⁵⁷ D.T. Yang & H. Zhou, *Rural-Urban Disparity and Sectoral Labour Allocation in China*, Journal of Development Studies 35(3), Beijing, 1999, p.105.

⁵⁸ Cai Fang, *Rural Urban Income Gap and Critical Point of Institutional Change*, Working Series Paper No.37, 2003, p.10.

CHAPTER IV

RURAL URBAN DIVIDE- IMPACT ON ECONOMIC GROWTH IN INDIA

After China, India is the second most populous country, it is home to 16.34% of the world's population and has a Gross Domestic Product (GDP) of 2.5 trillion (CIA.gov 2002). And an estimated sixty percent of the GDP is attributable to the urban sector. India has an income per capita of \$404. This is low as the global average of income per capita is \$3535. Similarly, thirty-five percent of its population lives below the dollar-a-day poverty line. By the end of 2002 India's debt to GDP ratio was around 65%. This is in comparison to 140% for Japan, Argentina at 133%, Egypt and Turkey at 99%. India also has a fiscal deficit that is among the highest in the world but it also has one of the highest growth rates. As a developing economy with a growth rate of 6% India can afford to have a high deficit. This phase is similar to the development of European countries, which during their growth stage ran high deficits. India is witness to massive migration. During the Partition more than fifty percent of the refugees from Pakistan settled in urban areas in India. India has a population of 1,045,845,226 and it is projected to have a population of 1.5 billion by the year 2050.⁵⁹

4.1 Introduction

The size of India is slightly more than one-third the size of the United States yet it is home to over three times as many people as the United States (CIA.gov 2002). As India is a developing country its urban areas are full, beyond capacity. In contrast, urban areas in United States have seen a reversal as people - due to crime in urban areas - have relocated to the suburbs. In India despite all the issues that are prevalent in urban areas city life is still better than life in a village.⁶⁰

Rural to urban migration is a contributing factor to the growth of the urban populations. As in the case of the city of Bombay (within the state of Maharashtra), which during Partition

⁵⁹ Rameshwar Prasad Misra, *Urbanisation in India: Challenges and Opportunities*, Indian Council of Social Science Research, Shillong, 1998, p.62.

⁶⁰ *Ibid*, p.63.

witnessed a lot of in-migration. An estimated fifteen million people flowed into and resettled into the urban areas of India. It has had continued in-migration from rural areas as well. Demographically, Bombay has one of the highest population densities in the world. It houses 160,000 people per square mile. As evident it is a highly, urban city. In addition it is also the financial powerhouse of India. It is home to the country's richest people as well as the biggest population of slum dwellers in the Asia. As evident in India there is a contradiction with increasing growth rates and increasing poverty. Although population is a contributing factor the cause of poverty is the uneven distribution of resources by the state namely the rural-urban divide in resource allocation.⁶¹

4.2 Rural-Urban Divide

Today 74.7 percent of the population lives in rural areas and 24.3 percent inhabit urban areas. In urban areas there is a heavy concentration of telephones, televisions and doctors. As 70 percent of the country's population mainly in rural areas lack access to primary health care the worst affected is the elderly, young women and children. Major environmental issues in rural areas are deforestation, soil erosion, overgrazing, desertification, and water pollution from runoff of agricultural pesticides. In urban areas there are issues of water pollution from sewage and air pollution from industrial effluents and vehicle emissions. India is also prone to natural disasters such as droughts, flash floods, severe thunderstorms and earthquakes.

Although India boasts more than 200 universities mainly in urban areas and has one of the largest educational systems it has failed to wipe out illiteracy. For those that are educated there are no jobs as more than 40 million people are unemployed. India has the largest share of illiterate women in the world. The poor educational status of the girl-child increases the fertility rate, maternal and infant mortality, and malnutrition in the family. Rights of women to land and property are rarely recognized. This increases the risk of poverty to women and their families and increases poverty overall as women and children makeup two-thirds of the population.⁶²

⁶¹ Kedar Nath Prasad, *Poverty, Inequality, and Unemployment in India: Incorporating their Regional/ Inter-State Dimensions*, Concept Publishing Corporation, New Delhi, 2009, p.117.

⁶² Retrieved from, <http://theindiaeconomyreview.org/Article.aspx?aid=26&mid=3>, at 13:00 on 12-04-2012.

One of the major factors affecting fertility rates in India is the illiteracy of women. India has a total fertility rate of 2.98 children born per woman. The literacy rate (defined as those age 15 and over that can read and write) is 65.5% for males and 37.7% for females. The infant mortality rate is 61.47 deaths per 1000 live births. The life expectancy for males is 62.55 years and for females 63.93 (CIA.gov 2002). During the 1960's the average for the total fertility rate of developing countries (including India) was six children born per women.

It is currently close to three children born per woman. Life expectancy has risen over the years as well. This indicates that India has gone through a demographic transition from low deaths and high births to lower deaths and fewer births.⁶³

4.3 Impact on Economic Growth

During the colonization of India by the British, industrialization was not encouraged. Yet some industrial enclaves did develop namely Bombay where textile mills were established and Jamshedpur where the Tata iron and steel mills were built. During colonialism power was a private industry and the British helped wealthy Parsi industrialists namely the Tatas' overcome peasant resistance and acquire land for their hydroelectric projects in the Maharashtra Western Ghats. The Tatas sold the power to Bombay consumers and made a good profit. Water pollution levels were still low during the period of colonialism due to low levels of urbanization and industrial development.

Following independence mobilization of water resources was seen as key to increasing agricultural productivity and to supply electrical power to the rapidly growing urban centers. As urban centers grew and industries developed water was also seen as a way to disperse waste.⁶⁴

Post independence as there was a lot of unemployment and the agricultural sector was not that lucrative. India began to industrialize, to add value to resources on its own instead of exporting raw materials. The state created an environment conducive to industrialists by creating a sheltered market and permitting the charging of higher prices than was internationally

⁶³ Ruddar Datt, *Growth, Poverty, and Equity: Story of India's Economic Development*, Deep & Deep Publications Private Limited, New Delhi, 2008, p.263.

⁶⁴ *Ibid*, p.264.

competitive. Once the environment for industrialization had been established it was easier for industrialists to produce capital-intensive instead of labor-intensive products. Therefore despite having a big portion of the population unemployed labor-intensive methods of industrialization were not utilized.⁶⁵

There was a concentration of capital-intensive activities in a few areas namely in Bombay, Baroda, Madras, Calcutta and Coimbatore. These centers have taken up the majority of government expenditure for provisions of water, power, transport, and communication as well as food subsidies. Industrialists have benefited from manipulating the state by bribing politicians. This has led to an inefficient industry that has no commitment to sustainable development or maintaining environmental standards. India's economy can be characterized as a high cost-low quality economy. As the cities have attracted the bulk of government expenditure while villagers continue to migrate to cities as their areas have been largely neglected. Despite resource scarcity and no available space, life in overcrowded cities even for the poor is better than living in rural areas that lack access to water and comparatively less employment opportunities.

India today is seen as one of the major sources of immigrant labor in developed countries. The main areas in the past have been science and medicine. Individuals who have attained advanced degrees in Indian Universities have been able to migrate to industrial countries such as the United States as advanced and highly specialized labor. Recently there has been a major trend in information technology and Indians have immigrated as computer professionals. The immigration of Indians is due to the high rates of unemployment in the country. There are negative impacts on health due to immigration. In the United States there is one Indian doctor per 1500 Americans where as in India there is one doctor per 2500 Indians. In addition there are more Indian psychiatrists practicing in the United States than in India. (Mathews 2001) As evident migration flows, unemployment and population are all related. These factors also tie into issues of environmental degradation and the health impact of pollution.⁶⁶

⁶⁵ Hans Nagpal, *Modernisation and Urbanisation in India: Problems & Issues*, Rawat Publications, New Delhi, 2009, p.153.

⁶⁶ Retrieved from, <http://www.egyankosh.ac.in/bitstream/123456789/36067/1/Unit%2012.pdf>, at 18:00 on 14-04-2012.

4.4 Rural-Urban Divide: Impact on the Poverty in India

India has shared the growth pattern with some of the fastest growing regions in Asia. The country has witnessed around 8 percent growth in GDP in the last couple of years. India's urban population is increasing at a faster rate than its total population. Urbanization has been recognized as an important component of economic growth. At 28 percent, the pace of urbanization, however, has been slow and lower than the average for Asia. The absolute number of people in urban cities and towns, however, has gone up substantially. The researchers expect rate of urbanization to also increase in the coming years. With over 575 million people, India will have 41 percent of its population living in cities and towns by 2030 from the present level of 286 million.

Urban poverty in India remains high, at over 25 percent. Over 80 million poor people live in the cities and towns of India. (Source: National Sample Survey Organization's survey report). This is roughly equal to the population of Egypt.⁶⁷

A large number of states report poverty figures in urban areas much above that in rural areas. At the national level, rural poverty is higher than poverty in urban areas but the gap between the two has decreased over the last couple of decades. The incidence of decline of urban poverty has not accelerated with GDP growth. As the urban population in the country is growing, so is urban poverty. Urban poverty poses the problems of housing and shelter, water, sanitation, health, education social security and livelihoods along with special needs of vulnerable groups like women, children and aged people.⁶⁸

11.2 million of the total slum population of the country is in Maharashtra followed by Andhra Pradesh (5.2 million) and Uttar Pradesh (4.4 million). Although the slum population has increased, the number of slums is lower (National Sample Survey Organization's 58th Round), which makes them more dense. There is higher concentration of slum population in the large urban centres (Census, 2001).

⁶⁷ Indian Economic Association, *Poverty and Sustainable Development: Concept and Measures*, Deep & Deep Publications Private Limited, New Delhi, 2010, p.94.

⁶⁸ K.R. Gupta, *Poverty in India*, Atlantic Publishers & Distributers (P) Ltd., New Delhi, 2008, p.53.

Poor people live in slums which are overcrowded, often polluted and lack basic civic amenities like clean drinking water, sanitation and health facilities. Most of them are involved in informal sector activities where there is constant threat of eviction, removal, confiscation of goods and almost non-existent social security cover. A substantial portion of the benefits provided by public agencies are cornered by middle and upper income households. 54.71 percent of urban slums have no toilet facility. Most free community toilets built by state government or local bodies are rendered unusable because of the lack of maintenance.⁶⁹

As per the 2001 census, the total urban homeless population is 7, 78,599 people. Delhi had 3.1 percent of the national level, and Bihar and Tamil Nadu had 1.6 percent and 7.3 percent respectively. Many people interviewed chose the streets because paying rent would mean no savings and therefore no money sent back home and hence the street was the only option for them. Their condition is chiefly linked to their lack of adequate shelter. In Delhi, for over a 100,000 homeless people, the government runs 14 night shelters with a maximum capacity of 2,937 people, which is only 3 percent of the homeless people in the city. Outside in the walled city of Delhi, private contractors called thijawalahs rent out quilts (winter) and plastic sheets (monsoon) for five rupees a night. Iron cots are rented for 15 rupees a night. 71 percent said that they had no friends. In a study of homeless populations, homeless men, women and children in four cities reported that they were beaten by the police at night and driven away from their make-shift homes/shelters.⁷⁰

Indian Urban Poverty Report finds that the incidence of migration in India has shown an increase in 2001 as compared to consistent decline during 1961-1991. The economic motive remains the main reason for migration among male interstate migrants. Economically backward states keep losing people to developed states. Poverty incidence was found less among migrants as compared to non-migrants but it was higher among rural to urban migrants. Middle and higher income groups show higher propensity to move. The most successful group of migrants is urban to urban migrants in terms of type of occupation they have and their income levels due to better education and skills they possessed. Influx of migration towards Metropolitan cities indicates

⁶⁹ Sita Ram Singh, *Poverty Alleviation in the Third World*, APH Publishing Corporation, New Delhi, 2005, p.141.

⁷⁰ Retrieved from, <http://www.oecd.org/dataoecd/16/59/45282661.pdf>, at 18:00 on 16-02-2012.

that economic reforms have not been able to create much employment opportunities in small and medium towns and in rural areas.⁷¹

4.5 Causes of the Rural Urban Divide in India

The Rural urban divide in India has existed since recorded history but has aggravated in modern times. The reasons for the disparities are however more clearly recorded in the modern times.

In broader terms, disparities can be attributed to three different types of factors:

- a. natural differences
- b. socio-cultural conditions and
- c. policy decisions.

4.5.1 Natural Differences

Among the natural factors, agro-climatic conditions, geographical location, resource endowment etc., play an important role in economic development of a particular area. It is true that good climate, adequate rainfall, and presence of natural and mineral resources contribute to economic development. Improved infrastructure facilities, transport and communication, and irrigation facility, when present in a particular region, may enhance the potential for its development.⁷²

Historically, cities have grown at sites which have had better access to natural resources such as easy access to water and a pleasant climate. This difference which was present since the ancient times has led to increased differences in modern times as the historical advantage has been used to prepare a better infrastructure in the cities owing to greater access to natural resources and better communication facilities. Further, owing to the favorable infrastructural conditions, businesses tend to grow faster in the cities which cause the rising difference between the level of development in the cities and the villages.

⁷¹ *Ibid.*

⁷² Sures Chandra Jain, *Education and Socio-Economic Development*, Ashok Kumar Mittal Concept Publishing Company, New Delhi, 2005, p.110.

4.5.2 Socio-Cultural Conditions

The second set of factors, which include values and rigid traditions, and patron-client relationships, affect social and economic mobility, innovation and entrepreneurship. It is believed that the extended family system in rural areas with patron-client relations helps reduce vulnerability and spread the economic risk among family members. These social safety-nets may be helpful for weaker members of society, but these work as disincentives for more entrepreneurial behaviour since any accumulated wealth would have to be shared with other members. Generally, the extended family system leads to the free-rider problem and adversely affects economic returns given the productive potential capacity of the household members.⁷³

Societal restrictions are also important in retarding the development possibilities for some groups of people in rural society. These social restrictions may limit their mobility (social or economic). Rajasekhar (1992) shows that downward economic mobility was more common among the small and marginal farmer households belonging to depressed castes. However, this did not lead to polarization as the small and marginal households felt compelled to stick to small pieces of land on account of lack of income earning opportunities in urban areas, and possibilities of non-farm employment. However, the diversification into non-farm sector was in the nature of distress diversification and did not result in substantial income increase to them.⁷⁴

The social restrictions also limit access to social services like education, medical care and opportunities for occupational diversification. Bonded labour, prohibitions against women going to school, restrictions on women to work outside the home, forced child labour, *jajmani system* are examples of social restrictions experienced in rural areas, which restrict income earning ability, participation in local decision-making bodies, and so on. As against this type of situation, urban areas are characterized by higher density of population and occupational diversification with less personal relationships. While defining urban life, Wirth (2000) has stated that cities were relatively dense with permanent settlements of social heterogeneous individuals. He found that differentiation and specialization were logical outcomes of the large number of people living

⁷³ R.U. Singh & A.K. Thakur, *Inclusive Growth in India*, Deep & Deep Publications Private Ltd., New Delhi, 2009, p.172.

⁷⁴ Retrieved from, <http://www.livemint.com/2009/11/10212104/India-Economic-Summit--Rural.html>, at 19:00 on 16-04-2012.

within a small area. He also stated that an anonymous life-style of urbanites and working together without sentimental and emotional ties fostered a spirit of competition and mutual exploitation. Such a specialization and innovation resulted in higher productivity and wealth. Besides, the large size of the urban population created a high demand for goods and services. Moreover, the availability of wide range of resources in a small area promoted specialization and innovation that produced goods and services at lower costs with economies of scale and promoted an increased supply. The backward and forward linkages across sectors created their own demand and supply. Probably, this gave rise to economic growth in urban areas.⁷⁵

4.5.3 Policy Decisions

It is argued that urban centres/cities have the advantage of more concentration of political power, infrastructure, business, foreign and domestic firms, multi-national companies, and foreign aid for developmental activities. This suggests that the urban areas usually have a strong economy because of the presence of high-value manufacturing and service industries. Being the centres of power, policy and commerce, urban areas are very distinct from the countryside. With the elite in the urban areas and the masses in rural areas (simple and hard working), the distinction between urban and rural society becomes a cultural one. Moreover, owing to the scattered pattern of rural settlements with inadequate communication and transport networks, rural people are disadvantaged in all respects.⁷⁶

Disparities between rural and urban areas have also been attributed to the urban bias in the development policies of the government. The biased development policies benefited a small portion of the population, namely, the city dwellers, and ignored the majority of the population that lived in rural areas. One of the important policies, that Lipton narrated, was the price policy by the government. Through price controls on staple foods, the cost of living of the urban population was kept low at the cost of the farmer's income. This, in turn, increased rural poverty and delayed rural development. Importantly, the bulk of investment by the public and private sectors ended up in the urban areas. While explaining the bias of government policy, Lipton (1977), in some other context, also points out that the scarcity of public funds compelled the

⁷⁵ National Institute of Rural Development (India), *Journal of Rural Development*, Volume 23, National Institute of Rural Development, New Delhi, 2007, p.25.

⁷⁶ Retrieved from, <http://www.ifpri.org/sites/default/files/pubs/pubs/ib/ib37.pdf>, at 11:00 on 17-04-2012.

government to invest always first in urban areas on physical infrastructure, education and health care and lastly, in rural areas. Another study has argued that the lower budget for social services lead to a decline in the quantity and quality of service delivery in rural areas, in general, and remote rural areas, in particular (ESCAP 2001). Not surprisingly, therefore, the utilization of social services was found to be significantly better in urban areas. For instance, the level of utilization of health care services, considered essential for safe delivery, was found to be higher among those living in urban areas in Karnataka. Lipton's study (1977) has also substantiated that the urban dwellers, even the urban poor, were in better position because of their ability to organize and their proximity to the seats of government. While explaining the rural-urban divide, Knight (2004) have mentioned that the urban minority were politically more important to government than the rural majority. Based on the foregoing discussion one can argue that the urban biased policies, concentration of infrastructure, firms, commerce, foreign and domestic aid etc., may be attributed to increasing rural-urban disparities.⁷⁷

4.6 Schemes for Rural Development by Government of India

The Government of India has undertaken a variety of steps for the development of rural areas in India and to reduce the urban-rural divide. The main schemes which have been undertaken are described as follows:

4.6.1 Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA)

The MNREGA scheme essentially guarantees employment for the unemployed in rural areas for 100 days in a year, through work such as building roads, improving water supply and works that are necessary to improve the village infrastructure. The uniqueness of this bill is in the fact that it carries emphasis on issues like equality of wages for men and women, elimination of work contracting/middlemen, payment of wages only through bank and post office accounts to prevent corruption, creating transparency in workers muster rolls etc. Any individual, irrespective of his socio-economic status can ask for employment (either in writing or verbally) with the Gram Panchayat. The act guarantees that if work is not provided within a 15 day time frame (including the eligibility verification and issuing of the job cards) then the applicant is

⁷⁷ Kingsley Davis, *India's Urban Future*, Cambridge University Press, London, 2006, p.267.

eligible for unemployment allowance. Work to be done is decided by the Gram Panchayat. Emphasis is given to unskilled manual labor focusing on building roads and other public village infrastructural facilities, water conservation, afforestation, land development & drought proofing. All adults in a house hold are eligible to work. If the work site is not within 5 kilometers from the applicant's residence then the applicant is eligible for an additional 10% of the wage. This law can be a big boost for nomadic tribal communities since locally domiciled but migrant population is also eligible for employment.

The MNREGA scheme aims to tackle the biggest problem of unemployment which forces people to migrate to urban areas and during the 5 years of its implementation has been the single biggest weapon of change in India.⁷⁸

4.6.2 Swarnjayanti Gram Swarozgar Yojna

The objective of the Swarnjayanti Gram Swarozgar Yojana (SGSY)⁷⁹ is to bring the assisted poor families (Swarozgaries) above the Poverty Line by ensuring appreciable sustained level of income over a period of time. This objective is to be achieved by inter alia organizing the rural poor into Self Help Groups (SHGs) through the process of social mobilization, their training and capacity building and provision of income generating assets. The SHG approach helps the poor to build their self-confidence through community action. Interactions in group meetings and collective decision making enable them in identification and prioritization of their needs and resources. This process would ultimately lead to the strengthening and socio-economic empowerment of the rural poor as well as improve their collective bargaining power.⁸⁰

The poverty line varies from State to State. As per the latest (1999-2000) estimates of the Planning Commission, the poverty line in terms of per capita consumption expenditure per month in the rural areas varies from Rs.262.94 in Andhra Pradesh to Rs.367.45 in Himachal

⁷⁸ V.D. Rohtagi, *The National Rural Employment Guarantee Act (NREGA)*, Sumit Enterprises, New Delhi, 2009, p.134.

⁷⁹ Retrieved from, <http://rural.nic.in/sites/downloads/programmes-schemes/prog-schemes-sgsy.pdf>, at 16:00 on 17-04-2012.

⁸⁰ Kulwant Rai Gupta, *Rural Development in India*, Atlantic Publishers and Distributers, New Delhi, 2004, p.122.

Pradesh. Prior to the commissioning of the MNREGA scheme, the SGSY was the flagship unemployment eradication programme.⁸¹

4.6.3 Pradhan Mantri Gram Sadak Yojana (PMGSY)

Pradhan Mantri Gram Sadak Yojana (PMGSY) was launched on 25th December 2000 as a fully funded Centrally Sponsored Scheme to provide all weather road connectivity in rural areas of the country. The programme envisages connecting all habitations with a population of 500 persons and above in the plain areas and 250 persons and above in hill States, the tribal and the desert areas.⁸²

This scheme has resulted in the connection of a vast number of Indian villages with the cities through all weather roads and has been instrumental in widespread productivity rise all over India. In recent times, it is considered as one of the few programs which will change the shape of new India.⁸³

4.6.4 National Social Assistance Programme

The *National Social Assistance Programme (NSAP)*⁸⁴ is a welfare programme being administered by the Ministry of Rural Development. This programme is being implemented in rural areas as well as urban areas. NSAP represents a significant step towards the fulfilment of the Directive Principles of State Policy enshrined in the Constitution of India which enjoin upon the State to undertake within its means a number of welfare measures. These are intended to secure for the citizens adequate means of livelihood, raise the standard of living, improve public health, provide free and compulsory education for children etc. In particular, Article 41 of the Constitution of India directs the State to provide public assistance to its citizens in case of unemployment, old age, sickness and disablement and in other cases of undeserved want within the limit of its economic capacity and development.

The three main schemes of this program are:

- (i) National Old Age Pension Scheme

⁸¹ *Ibid*, p.123.

⁸² Retrieved from, http://pmgsy.nic.in/Intr_E.pdf, at 18:00 on 17-04-2012.

⁸³ N. Mukundan, *Rural Development and Poverty Eradication in India*, New Century Publications, New Delhi, 2010, p.161.

⁸⁴ Retrieved from, <http://rural.nic.in/sites/programmes-schemes-NSAP.asp>, at 20:20 on 17-04-2012.

- (ii) National Family benefit scheme
- (iii) National Maternity benefit scheme

In addition to these programmes, the government has undertaken a variety of other schemes for development of rural areas and to ensure that the rural-urban divide does not increase any further.⁸⁵

4.7 Other Possible Steps which can be undertaken

In addition to the various programmes being undertaken by the Government of India, a variety of innovative steps can be undertaken to ensure that the rural areas do not remain back in India's growth story. The steps are just an extension of the various programmes undertaken by the Government. Here, we try to suggest possible additions to the schemes being undertaken by the Government. These suggestions have been provided keeping in view the prevailing socio-economic scenario and with a view to ensure that minimum resources are diverted from the existing programmes since some of the present programmes such as MNERGA have been very successful in their goals, The ideas are as follows:

- a. Extension of MNREGA scheme to provide vocational jobs in rural areas

We need to provide non-agricultural jobs in rural areas. Local skills based self employment in cottage industries should be encouraged through PPP. With high economic growth and proliferation of service industries (Telecom, Retail, Finance, Security and other support services), our cities are starved of trained man-power in skilled and semi-skilled categories, while our rural youth is unemployed and frustrated. We need to fill this demand-supply gap. Vocational training to educated and semi-educated rural youth in collaboration with industry with reasonable assurance of job opportunity will bridge this gap. Such schemes have already been undertaken in states like Rajasthan and Assam and have shown encouraging results.⁸⁶

- b. Streamlining the financial system to suit rural areas

⁸⁵ *Ibid.*

⁸⁶ Retrieved from, [http://rural.nic.in/sites/downloads/right-information-act/02MGNREGA\(F\).pdf](http://rural.nic.in/sites/downloads/right-information-act/02MGNREGA(F).pdf), at 23:00 on 17-04-2012.

Institutional Micro credit to marginal farmers in rural areas needs urgent attention. Farmer suicides have been linked to repeated failure of crops coupled with burden of high interest loan from local lenders. Micro finance schemes have shown great promise and need to be encouraged. Easy credit facilities and crop insurance schemes should be effectively administered. The absence of banks and financial institutions in rural areas has been perhaps the biggest bottleneck in development of farmers and the rural population.

c. Immediate steps to be taken for development of Infrastructure

The infrastructure development in Indian villages has perhaps been limited to the PMGSY and much need to be done for infrastructure development. Infrastructure has become a major constrain and is threatening to impede our economic growth. The matter has acquired extreme urgency and calls for a substantial increase in the allocation of public resources for infrastructure sector. However, public resources alone may not be sufficient. The private sector has a critical role to play in achieving the objective of faster and more inclusive growth. This sector accounts for 70% of the total investment in the economy. Given the huge investment requirement in infrastructure sector, private participation is critical and must be encouraged. Government should device appropriate policy framework, dispute resolution mechanisms and MCAs (Model Concession Agreements) which would encourage private investment in infrastructure. Success of private participation in Telecom and National Highways should strengthen the case for a mutually beneficial Public Private Partnership Model in infrastructure in rural areas.⁸⁷

d. Education and healthcare sector improvement

Education is the primary backbone for the economic development of a country and since a large percentage of India's population lives in rural areas, so the development of education is one of the primary needs. Presently, the Right to Education Act only guarantees education to 14 years only. However, this scheme needs to be extended to include a larger population group to ensure that the rural youth are also provided with adequate education opportunities.

⁸⁷ Retrieved from, <http://pmgsy.nic.in/pmg91.asp>, at 12:00 on 18-04-2012.

We spend just 1.2% of our GDP on health care. Our Public Health System is inefficient and has lost its credibility. This is in urgent need of revival and resurrection. Our poor cannot afford private healthcare. An improvement in the health care scheme in rural areas would drastically improve the productivity in rural areas and increase India's social security scenario. A good start has been made through the National Rural Health Mission but this start should be made a success though continued effort and funding.⁸⁸

⁸⁸ D. Rajasekhar & G.B. Sahu, *The Growing Rural-Urban Disparity: Some Issues*, Working Paper 156, Institute for Social and Economic Change, 2005, p.14.

CHAPTER V

CASE STUDIES OF OTHER DEVELOPING COUNTRIES

5.1 Rural-Urban Linkages in Thailand

In 2000, only 21.6 per cent of the population of Thailand resided in urban areas according to the United Nations. This seems to be a low level of urbanization given the level of economic development of the country. It may well be that many migrants who live in urban areas and did not change their civil registration have been included among the rural population. Furthermore, circular and season migration is common in Thailand due to the good transport facilities across the country. Urbanization is extremely skewed towards the Bangkok Metropolitan Region where 54.9 per cent of the urban population lived in 2000. Rural development, decentralization of economic development and reduction of rural-urban migration to Bangkok are, therefore, important objectives of any Thai Government.

One of the key themes proposed for the Ninth National Economic and Social Development Plan (2002–2006), currently in the process of finalization, is the Restructuring of Management for Sustainable Rural and Urban Development. The Plan argues that area management should focus on the links between sustainable urbanization and rural development in order to reduce the gap between rural and urban areas.⁸⁹

Under the heading of Sustainable Rural and Urban Development, four major targets are listed:

a. Empowerment of communities and development of livable cities

The Government of Thailand should place an emphasis in its policies on the development of processes that empower communities so that they can serve as strong foundations of society. Mobilizing participation of all stakeholders in community development is a priority target.⁹⁰

⁸⁹ Ronald David Hill, *The Impact of Urbanisation on Rural-Urban Linkages in Thailand and Malaysia*, Routledge Curzon Publishers, New York, 1994, p.102.

⁹⁰ Yap Kioe Sheng, *Poverty Alleviation Through Rural-Urban Linkages: Policy Implications*, Economic and Social Commission for Asia and the Pacific, Bangkok.

b. Alleviation of rural and urban poverty through participation

Poverty alleviation efforts of the Government should be holistic in approach, not just focused on income poverty. To this end, empowerment of the poor should be a priority. There is a need for legal and regulatory reform to provide the poor with access to government services, and to give them opportunities to utilize natural resources for their livelihood in a sustainable manner and without breaking the law.

c. Establishment of linkages between rural and urban development

In order to distribute economic and social opportunities equitably, the Government should strengthen grassroots economies that can provide sustainable incomes for the rural population. The Government should establish economic clusters that link rural and urban areas, and the cluster-based economic development should be consistent with the economic potentials, preferences and functions of each area.

d. Management of integrated area-function-participation development

Capacity building is needed to equip local administrative organizations with trained people and effective management systems in order to facilitate decentralization.⁹¹

5.2 Poverty Alleviation through Rural-Urban Linkages (PARUL) in Indonesia

The Asian financial crisis of 1997/98 had a devastating impact on the urban economy of Indonesia with bankruptcies, lay-offs and massive unemployment. The sector that showed the most resilience during this period was that of the small and medium-sized enterprises producing and trading agricultural products. Because of their increased competitiveness as a result of the currency devaluation, this sector was able to explore new export markets.⁹²

The discovery of the small and medium-sized enterprises as a vehicle for development led to the PARUL (Poverty Alleviation through Rural-Urban Linkages) project, a nationally executed project under BAPENAS, the National Development Planning Agency, funded by the United Nations Development Programme (UNDP) with technical support from the United

⁹¹ Peter Warr, *Thailand beyond the Crisis*, Routledge Curzon Publishers, New York, 2005, p.292.

⁹² K.R. Gupta & P. Maiti, *Social Capital, Volume 2*, Atlantic Publishers & Distributors (P) Ltd., New Delhi, 2008, p.6.

Nations Centre for Human Settlements (Habitat). The challenge of the PARUL project is to bring more benefits to the rural population in regions of Indonesia being left behind by the economic growth of the nation. It was assumed that a reason for this exclusion from the benefits of development is the poor linkage of rural areas to larger market networks in a far-flung country like Indonesia.

PARUL is a pilot project to introduce a market-led approach to local economic development through the establishment of commodity-focused public/private partnership organizations in selected provinces and districts under the aegis and leadership of the local government, especially the local planning organization. The task of the organizations is to identify the constraints facing a selected local export commodity, to mobilize public and private resources required to remove these constraints, and to improve the linkages and business arrangements between poor rural producers and urban processors and exporters.⁹³

The PARUL approach provides a stark contrast to development efforts of the past. Past efforts focused on rural development or urban development with inadequate consideration of the systematic and pragmatic linkages between the two. Like in many other countries, previous development policies tended to be driven by an emphasis on production at the expense of consideration for marketing. With little consultation with the private sector, government dominated the development planning and implementation process and the process was highly centralized. By contrast, PARUL stresses that the local economic development process must be market-led, decentralized, participatory and focused on strengthening practical linkages between rural producers and urban processors and exporters.⁹⁴

To strengthen the linkages between rural producers and urban-based exporters, PARUL operates at two levels of local government: the province and the district. At the province level, it creates a Cluster Development Partnership (CDP) bringing together a broad representation of people concerned with the selected commodity. In selected districts, PARUL assists in the establishment of the *Kabupaten* Implementation Team (KIT) that also is composed of a cross

⁹³ Asian Development Bank, *Indonesia: Strategic Vision for Agriculture & Rural Development*, Asian Development Bank, Philippines, 2006, p.141.

⁹⁴ Retrieved from, http://www.hughemrysevans.org/country_detail.php?id=7, at 11:12 on 18-04-2012.

section of people interested and involved in the selected commodity. PARUL assists these public/private partnership organizations to develop their action plans and to strengthen their capacity to address constructively the challenges facing their commodity. At the sub-district level, PARUL assists in organizing networks of farmer groups linked to the KITs. Additionally, PARUL staff work to identify specific linkages between producers and markets, essentially helping to put together business deals between, for example, a group of coconut farmers and a potential charcoal exporter, or a group of fishermen with an ice producer and a shrimp exporter.

5.3 Rural-Urban Nepal Partnership Programme in Nepal

The central idea of the Rural-Urban Partnership Programme (RUPP) in Nepal is that a major bottleneck in commercializing agricultural and rural production in a manner that can alleviate poverty is the absence of market linkages and information about markets. In Nepal, especially but not exclusively in the Terai region where urbanization is proceeding rapidly, this problem is exacerbated by the high level of imports from India. In a situation of low commercialization, finding market niches for rural commodities and services is a daunting task. The RUPP, which is funded by UNDP and implemented by UNCHS (Habitat), has shown, however, that such niche markets do exist and are manifold, especially in localized markets in which petty commodity producers and service providers can produce efficiently and competitively.

Although rural and urban producers face numerous obstacles in entering the market place, the RUPP has so far demonstrated that poor communities and small rural and urban enterprises in Nepal can compete in bigger markets in many ways. Vegetables, fruit, fish, bee keeping, buffalo selling, renting telephone services, tin and copper pot making, metal working, shoe making, stationery and envelop making from paper produced in Nepal are but of few of the successful examples that RUPP has supported through training and credit.⁹⁵

RUPP has approached poverty alleviation through rural-urban linkages at two levels. At the municipal and rural-urban level, it has supported the construction of rural market centers and, to a lesser extent, key sections of roads and bridges, and the development of institutional and

⁹⁵ M.L. Dhawan, *Rural Development Priorities*, Isha Books Publishers, New Delhi, 2004, p.140.

service linkages of rural market centers with municipal markets. At the level of communities and enterprises, it has used the TLO (Tole/Lane Organization) as an institution to screen potential enterprises and candidate entrepreneurs who, in small groups, are able to borrow from the RUPP credit program at around NRps.25,000 per group of 5 members. The TLO is an invaluable mechanism in participatory decision-making allowing for consensus around priorities at a scale above the individual household, yet sufficiently decentralized to allow for democratic decision-making by relatively small community groups.

At the end of December 1999, the programme had supported over 250 enterprises contributing to the strengthening of rural-urban linkages. The package approach that the programme adopted and that involved credit, technology, skills transfer and seed grant in the promotion of economic enterprises resulted in the optimization of resources and laid groundwork for sustained economic impact. Total disbursement of credit by the end of 1999 had reached NRps. 5.4 million; so far, NRps. 3 million in loan repayments have been collected. The equity share from the economic enterprises has so far amounted to NRps 3.8 million, slightly over 70 per cent of the programme's total credit disbursement.⁹⁶

⁹⁶ Md. Saiful Momen, *Toward Synergistic Rural-Urban Development: The Experience of the Rural Urban Partnership Programme (RUPP) in Nepal*, IIED Publishers, New Delhi, 2006, p.15.

CHAPTER VI

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

6.1 Introduction

The early development strategies of both China and India were urban- and industry-focused, discounting the importance of rural development. Despite sweeping reforms in both countries, the urban bias and subsequent spatial disparities still exist today. In order to reduce poverty and increase growth, developing countries need to correct these spatial disparities through a set of policies that take advantage of the synergies and linkages between rural and urban areas.

In 1947 and 1949, both India and China, respectively, embarked on an urban-biased development scheme that equated industrialisation with development. A series of policies and interventions explicitly and implicitly reinforced rural/urban spatial disparities in both countries. More specifically, a number of urban- and industry-focused policies subsidised and protected the industrial sector while at the same time ensuring urban residents had access to food at subsidised prices. Such preferential practices included 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. In particular, agriculture in China was subject to centrally set targets for yield, area, and output, with farmers forced to sell to government bureaus at low procurement prices. Furthermore, the strict control of rural-to-urban migration reinforced the segmentation of China's rural and urban sector. In India, in order to provide cheap food and basic inputs for industrial development, farm prices were also kept artificially low, and agricultural exports were curtailed through quantitative restrictions and an overvalued exchange rate. High rents were thus transferred to urban centres, not only contributing to capital accumulation in industries, but also supporting urban-based subsidies. This resulted in unequal development and large gaps between rural and urban areas.⁹⁷

⁹⁷ *Supra* note 1, p.90.

The following diagram shows the rate of urbanisation linked with GDP growth in India and China and how the economic growth is linked to GDP growth in both the countries. Further, urbanisation is seen as a consequence of economic growth.

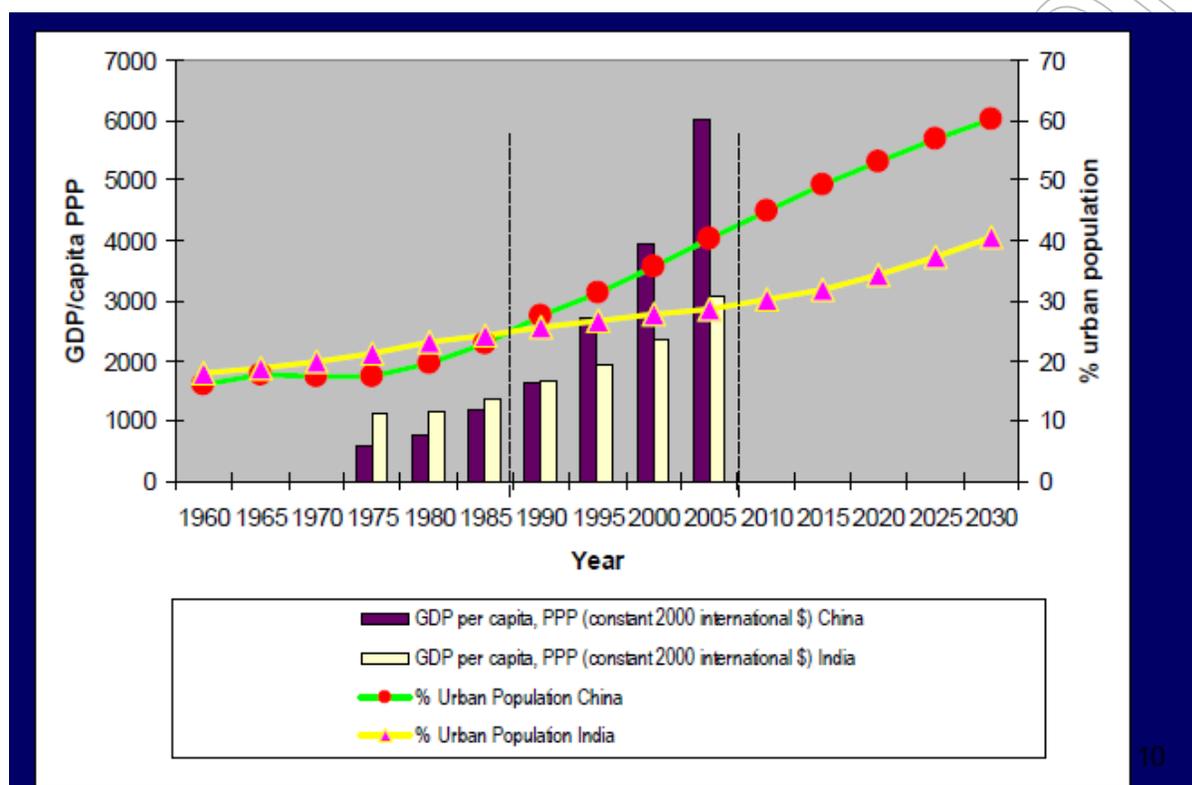


Fig: Urbanisation and GDP per Capita (India and China)⁹⁸

6.2 Urban bias in India and China- Causes and Concerns

The development literature has exhibited a growing interest in the linkages between rural and urban development. These linkages matter because rural and urban livelihoods are interconnected economically, financially, and socially.⁹⁹ From a rural perspective, most farmers depend on urban markets to secure their livelihoods. Rural households also depend on urban centers or small towns for various services (e.g., hospitals, banks, and government offices) and for the provision of various private and public goods. Moreover, the rural sector benefits from remittances sent by urban-based family members.

⁹⁸ Retrieved from, <http://www.lisproject.org/conference/papers/vanneman-dubey.pdf>, at 09:45 on 21-04-2012.

⁹⁹ *Supra* note 3, p.48.

Likewise, urban areas are linked to the rural sector through several channels. For example, various urban businesses and enterprises depend on rural demand for their goods and services. They also rely on rural areas for the supply of raw materials. Urban consumers, on the other hand, benefit from cheap and sustained food supply from rural areas. Furthermore, many poor urban households partly depend on rural activities (e.g., farming) for their livelihoods. The rural sector can also act as a buffer from the impact of macroeconomic shocks on the urban economy (World Bank 1999).¹ Links between the rural and urban sectors also include flows of information, such as markets and employment opportunities, as well as flows of people moving between rural and urban centers on a temporary or permanent basis.¹⁰⁰

Development policies that facilitate these rural-urban linkages can promote economic growth and poverty reduction. But how does this balancing and synergistic relationship work? Economic theory suggests that resources should move freely so that marginal returns are equalized between sectors and regions. An increase in agricultural productivity may precede the growth of urban settlements. But as new innovations take place in the urban sector, urban labour productivity and wages rise, making migration from the rural to urban sector attractive. In the meantime, urban development may also improve access to capital, inducing further mechanization or other innovations relevant to agricultural production. As a result, agricultural productivity grows, narrowing the productivity and income gaps between rural and urban areas. When innovations take place again in the urban sector, the gap in productivity and income widens between the two sectors. Rural labour begins to migrate to the urban sector, and capital moves to rural areas. A new equilibrium emerges. This process of moving from disequilibrium to equilibrium due to technological innovations in both sectors is the major source of economic growth and development.¹⁰¹ But many developing countries disrupt this natural economic development process. Very often governments interfere in favour of the urban sector, distorting capital and labour markets to favour urban over rural areas, in an attempt to jumpstart development or leapfrog this process. As a result, overall efficiency is lost, as resources do not flow to their “free-market” locations where they would naturally earn the highest rate of return. As a consequence, the rural-urban gap increases, and the natural growth that would occur in rural areas, as well as in urban areas, is circumvented. In fact, in developing countries, we typically

¹⁰⁰ *Supra* note 6, p.73.

¹⁰¹ *Ibid*, p.74.

observe the coexistence of a modern urban sector and a traditional rural sector. In these countries, the urban population is often better off than their rural counterparts. This rural-urban divide evolves when governments in developing countries give preference to the urban sector in their public policies. Such preferential practices may include, for example, price policies, public investment, and welfare transfers that favour the urban over the rural population. In part this urban bias may also occur because urban centers in developing countries may be better organized politically and thus have greater influence on policy makers than the rural population.

We see the effect of urban bias in the gap between urban and rural areas in terms of labour productivity, per capita income, and poverty rates. The greater the gaps among these indicators, the larger are the bias. Naturally, per capita income and productivity differences have to be adjusted by labour quality and cost of living in the two sectors. 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 terms of 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. Second, overvalued exchange rates in most developing countries exacerbate this bias, adversely affecting all traded goods, but frequently agricultural products in particular. If labour and capital are fully mobile, they may move towards the urban or industrial sectors if the returns there are more favourable. In the long run, however, even in the presence of distortion in the output markets, the marginal returns to different factors between rural and urban sectors will converge as long as there is no distortion in the factor (input) markets. Unfortunately, many countries like China have also heavily distorted factor markets by restricting the movement of labour and capital. The Household Registration System, or hukou, in China, for example, did not allow farmers to move to urban centers despite the presence of a huge labour surplus in the rural sector and the lower marginal return to labour there. After the reforms in 1978, farmers were allowed to migrate to urban areas, but many restrictions on their employment in urban centers remain.¹⁰²

Third, governments' tendencies to favour urban centers are reflected in their spending policies. Like other government policies, public spending endeavours to promote more equitable development and increase efficiency by correcting market failures. In many cases, governments

¹⁰² *Supra* note 7, p.5.

may have to trade off efficiency and equity goals. But it is also important to recognize that equity-efficiency trade-offs are not always present. 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. 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. The consequences of urban-biased policies are obvious. First, these policies lead to larger gaps between rural and urban areas in terms of many development indicators, such as education, health, nutrition, per capita income, and poverty. Second, rising inequality may lead to tensions that constrain the prospects for future growth through a variety of social, political, and economic mechanisms.

6.3 Comparison of Indian and Chinese Growth Indicators

6.3.1 Urbanisation Rate of India of India and China

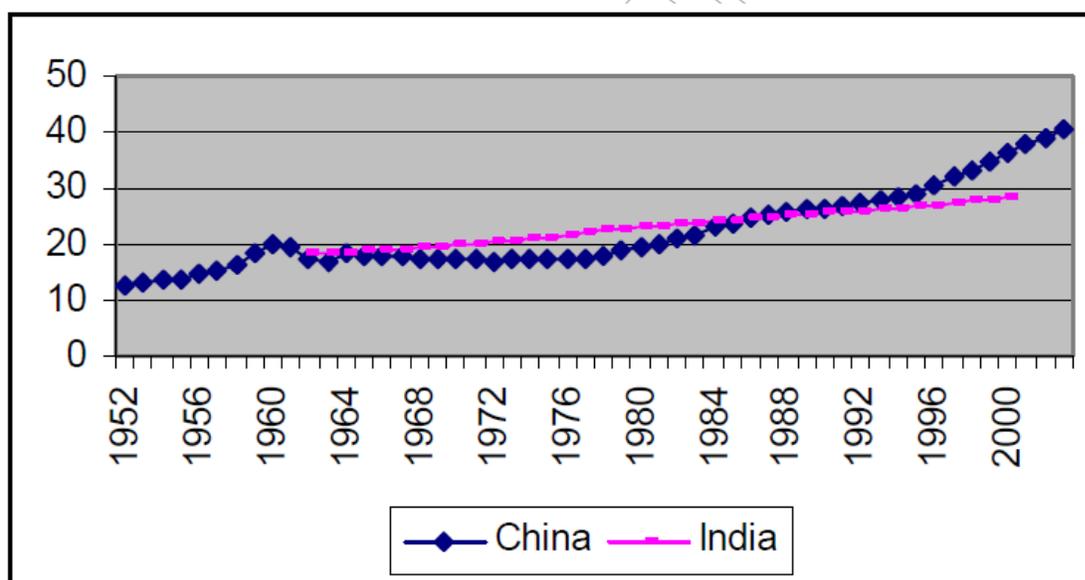


Fig: Urbanisation Rate of India and China¹⁰³

The urban bias that prevails in China finds its roots in the country's history. After the establishment of the communist regime in 1949, China adopted a development strategy that

¹⁰³ S. Fan, C. Chan-Kang & A. Mukherjee, Rural and Urban Dynamics and Poverty: Evidence from China and India, *FCND Discussion Paper 196*, International Food Policy Research Institute, August 2005, p.7.

emphasized urban industries with capital-intensive technology through various implicit and explicit transfer programs. 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 virtually nonexistent. These jobs also provided urban residents with many benefits, such as free or subsidized housing and health care. On the other hand, rural residents were confined to their production units here they produced agricultural commodities under strict state planning.

For India, the slow rate of urbanisation until the late 1990’s has been a result of both social and economic factors. 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 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. Another section of population which migrated to the cities was the newly educated youth which wanted a shifted from the primary sector to the tertiary or secondary sector.¹⁰⁴

6.3.2 Rural- Urban Per capita Income Gap

The rural income per capita income in China has remained large over the years due to a combination of government policies and control. 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. All these elements contributed to the concentration of capital investment in the urban sector. Consequently, even accounting for cost-of-living differences, the income of urban workers was far greater than that of their rural counterparts. In 1978, for instance, per capita income in rural areas was only 34 percent that in urban areas.⁶ Moreover, poverty in the rural sector was far more prevalent than in the urban sector.

¹⁰⁴ Retrieved from, http://www.mckinseyquarterly.com/Comparing_urbanization_in_China_and_India_2641, at 11:00 on 21-04-2012.

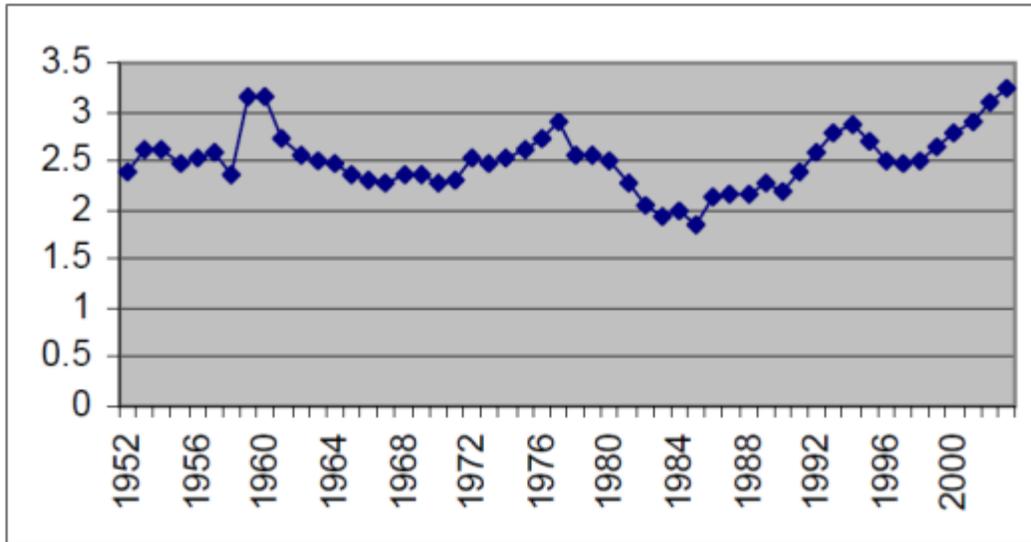


Figure: Urban-Rural per Capita Income Gap in China¹⁰⁵

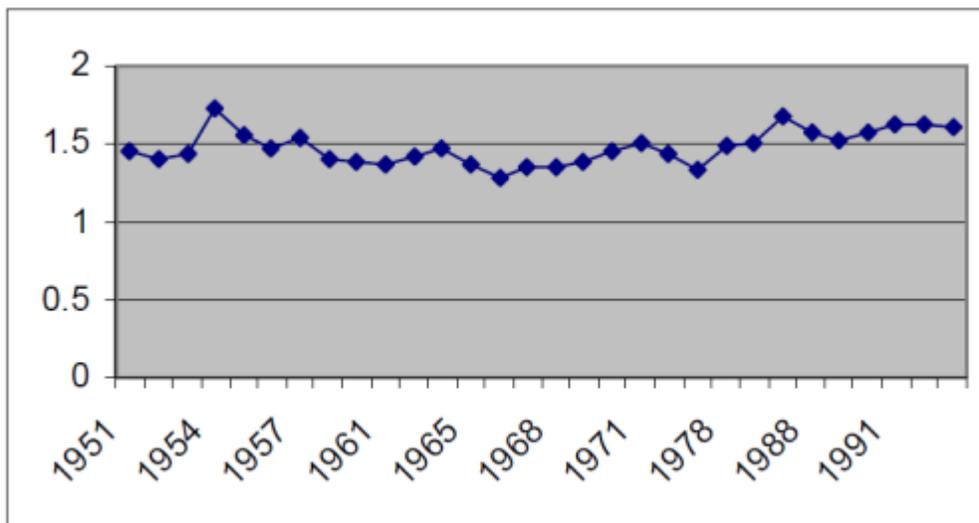


Figure: Urban-Rural Income Gap in India¹⁰⁶

During the first three Five-Year Plan periods (1951-1966), the newly independent India emphasized self-reliance and gave priority to rapid industrialization. This development strategy required a substantial amount of investment in urban industries from the state at the expense of the agricultural sector. The first Five-Year Plan (1951-56) allocated 31 percent of the budget to

¹⁰⁵ *Supra* note 101, p.8.

¹⁰⁶ *Ibid*, p.16.

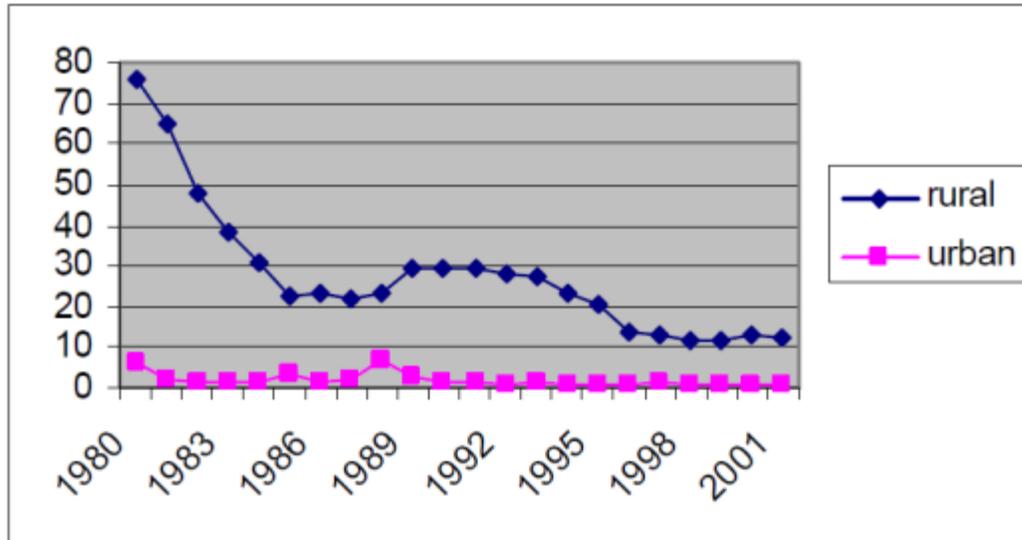
the agricultural sector. Rural outlays, however, decreased thereafter to 20-25 percent as India formally adopted the socialist strategy of heavy industrialization during the Second Five Year Plan (1956-61). Under this strategy, agricultural policy was infused with a pro-urban bias. In order to provide cheap food and cheap basic inputs for industrial development, farm prices were kept artificially low and agricultural exports were curtailed through quantitative restrictions and an overvalued exchange rate. Moreover, basic food products were made available at subsidized prices in urban areas and food deficit regions. The government concerned itself with controlling the price of foodgrain because the relative price of foodgrain was thought to be an important determinant of savings and investment rates. After the mid-1960s, India's government began to prioritize the development of the agricultural sector. The government adopted an agricultural strategy aimed at improving productivity in the agricultural sector. Under this strategy, various agricultural price support mechanisms and input subsidies were introduced, which helped the success of India's Green Revolution. Emphasis was also given to 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. However, as a result of the urban bias in policies, an income gap also exists between rural and urban residents in India, even after adjusting for cost-of-living differences, although it is smaller than that in China.¹⁰⁷

6.3.3 Poverty Rates

China has seen probably the biggest success in relation to poverty reduction. The Chinese growth story has seen the country's poverty level from around 80% in the 1980's going down to around 10% in the late 1990's.¹⁰⁸ One of the primary reasons for the reduction of poverty in the country was the planned economic system adopted by the country in the first part and then the opening up of the markets in the 1990's. The liberalisation of the economy resulted in the growth of industries and increased employment opportunities which are seen as a key to the rapid reduction in poverty.

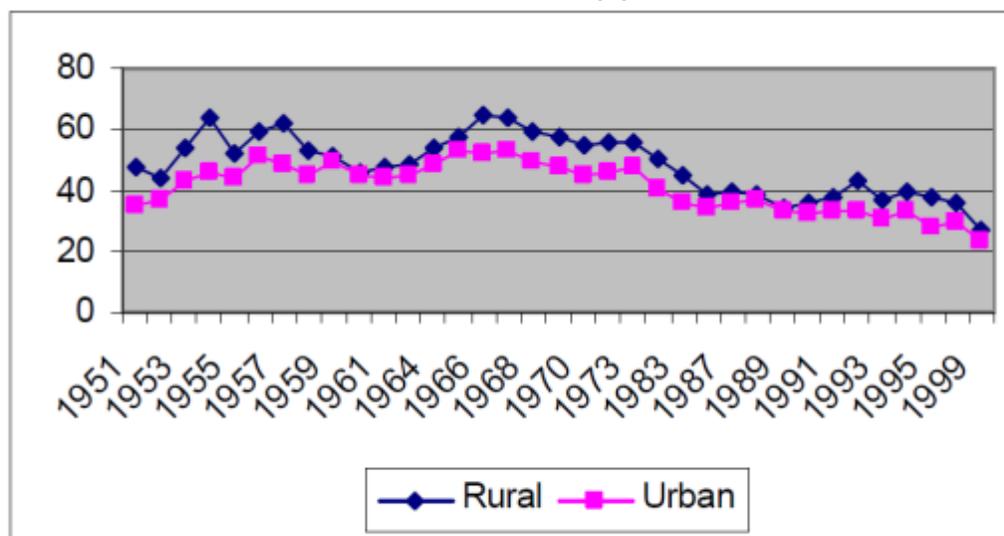
¹⁰⁷ Retrieved from, <http://english.people.com.cn/90882/7622194.html>, at 12:13 on 21-04-2012.

¹⁰⁸ *Ibid.*



Sources: Chen and Ravallion (2004).

Figure: Rural and Urban Poverty Rate in China¹⁰⁹



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

Figure: Rural and Urban Poverty Rates in India¹¹⁰

India's poverty reduction story has however been a different sort of roller coaster ride. The country saw its poverty level rapidly rise during the 1960's due to a variety of factors like repeated crop failure, political instability and failure of government policies. However, after the

¹⁰⁹ *Supra* note 101, p.9.

¹¹⁰ *Ibid*, p.16.

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 a variety of new government policies and rapid economic growth, the poverty levels are expected to further come down in the near future.¹¹¹

6.4 Future Steps to be taken by Both Countries

Both countries have taken steps to correct the urban bias to some extent. But the spatial disparities, in terms of development indicators such as poverty, still continue.

Urban-biased policies still prevail particularly in terms of government investment priorities, which disproportionately favour urban areas in both countries. This impedes the efficient allocation of resources (such as labour and public investments), therefore contributing to the unequal development between the rural and urban sectors. We recommend the following policies to help correct the urban bias and, strengthen the links between rural and urban sectors, 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, utilising the synergies available through rural and urban linkages. In poor areas such as western China and eastern India, investments in rural infrastructure, agricultural research, and education have a larger poverty reduction impact than similar investments in more-favoured areas. Even more importantly for rural-urban linkages, the poverty reduction impact of rural investment extends to urban poverty reduction through such channels as reduced food prices. These results strongly support the conclusion that rural investments as well as investments in less-favoured areas are a win-win strategy for rural and urban poverty alleviation and that more investment should now be channelled to these areas.

b. Reduction of Migration Restrictions

Rural-urban migration not only has the potential to improve the well being of migrants, but can benefit rural areas through remittances as well as improved land/labour ratios in

¹¹¹ Retrieved from, <http://emlab.berkeley.edu/users/webfac/bardhan/papers/poverty.pdf>, at 16:00 on 21-04-2012.

the agricultural sector. In fact, past studies have found that rural-to urban migration in India and China has contributed to poverty reduction. 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. However, formal and informal institutions and policy barriers still restrict the movement of the population. Lack of education and access to information and poor infrastructure are the most critical constraints. 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 additional investment targeted as needed to facilitate this movement and protect rural migrants.¹¹²

c. Development of the Rural Non-Farm Sector

The rural non-farm sector is important for the growth of the rural economy as well as for poverty reduction. It also provides opportunities for poor rural households to diversify their livelihoods. showed that the share of household non-agricultural income is inversely related to farm size, with land less and near-landless workers deriving between a third and two-thirds of their income from off-farm sources. In India, the bulk of the poor are landless or live on small farms with inadequate land for their own food needs. 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 to establish their own business and to access non-farm jobs in the rural non-farm sector.

d. Development of Small Rural Towns

Small and medium-sized towns are not only an important intermediary point along the rural and urban spectrum but an important source of social and economic provisions as well. More specifically, small- and medium-sized towns and cities act as service delivery

¹¹² Retrieved from, <http://www.thehindu.com/news/international/article2675384.ece>, at 19:00 on 21-04-2012.

nodes to rural areas and link the rural economy with external input and output markets, thereby reducing transaction costs. 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, employment, and financial linkage. Small towns can also serve as a stepping-stone or an end-point for rural residents by absorbing some of the agricultural labour surplus and alleviating the pressure put on already congested metropolitan centres, while contributing to the growth of the national economy. However, poverty cannot simply be shifted from farms to small and medium-sized towns, and development strategies should take into account the specific issues facing these centres. 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.

Holding up a rural-urban lens to development is useful for illuminating new ways of thinking about development strategies and about urban and rural transformations, particularly as urbanization and migration continue, as rural livelihoods diversify, and as the agriculture and food system becomes more complex. Both rural and urban livelihoods can benefit from this perspective, but only if it leads to improved and closer interactions, not continued separations in mindsets, policies, and institutions.¹¹³

¹¹³ Retrieved from, <http://www.cfr.org/india/financial-crisis-may-worsen-poverty-china-india/p17812>, at 23:00 on 22-04-2012.

CHAPTER VII

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 overall efficiency losses due to misallocation of resources among rural and urban sectors. It also led to large income gaps between rural and urban areas. The urban bias was greater in China than in India. Indeed, official data show that both the income gap and the difference in poverty rates between rural and urban areas are much larger in China than in India.

Both countries have corrected the rural-urban divide to some extent as part of reform processes. 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 larger reductions in poverty as well as more balanced growth across sectors and regions.

Correcting a government's bias towards investment in urban areas is one of the most important policies to pursue. In particular, more investment in education, infrastructure, and agricultural research and development has proved to be both pro-growth and pro-poor. Facilitating the mobility of productive factors, such as labor, is another means to correct any bias. In particular, providing health, education, housing, and pension services for rural migrants in urban areas is essential to promoting human capital movement from rural to urban areas or to the industrial sector. Promoting the development of the rural nonfarm economy and rural small towns is another effective way to correct rural/urban bias and to create significant synergies between the two sectors.

In every sphere of life, it is the quality not quantity that matters in the course of prosperity. Urban areas are more prosperous 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. Urban

people are bit practical in their approach than rural people which makes them economically rich and prosperous. Rural people are relatively more stick to customs and traditions rather than moving along with changing time than urban people. Our each and every cell gets replenished after some time and our physical appearance also changes with time so why can not the customs and traditions. Darwin has earlier said that in the world of competition, the fittest will survive. This word fittest also talks of quality and efficiency. Natural resources are nothing without efficient human resources. Suppose if we have abundant natural resources in particular area, but if we do not know how to extract them then they will be of no use.

China is more developed than India not because of large population but because of the quality and creativity of population. If it is the case that quantity of population causes prosperity, then why the states of Uttar Pradesh and Bihar are less developed than states of Kerala and Karnataka. Population in urban areas is more educated and developed as compared to rural population which make 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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