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REFORM AND OPENING-UP AND URBANIZATION IN CHINA

Abstract: China's urbanization is a miracle amid the past 40 years of reform and opening-up. Taking a panoramic view of the process, institutional innovation is a powerful driver to urbanization. First, the implementation of rural household contract responsibility system and the reform of household registration system have led to significant changes in the rural collective economic system and loosened the restrictions on population mobility. Second, the market-oriented reform has broken the centralized planned economic system, showcasing a decisive role of the market in allocating the resources. Third, the continuing opening-up has integrated China into the global economic division of labor and cooperation system and seized the opportunity of the world industrial restructuring and transfer. In the future, deepening urbanization still requires further reform and opening-up. We should intensify the reform of property right system, build a management mechanism and a policy system for urban-rural integration and push the reform and opening-up to a higher level.

Key words: *Urbanization; Reform and Opening-up; Institutional Innovation; Urban-Rural Integration*

1. INTRODUCTION

Over 40 years of the reform and opening-up since 1978 have led to historic changes in China, during which the sustained and rapid urbanization is the greatest achievement with profound and extensive impacts. Nobel Prize winner Stiglitz said that urbanization in China and high-tech development in the United States will be two key factors affecting the human progress in the 21st century.

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2. MIRACLES OF URBANIZATION IN CHINA SINCE THE REFORM AND OPENING-UP

China is a country dominated by small-scale peasant economy, with 5000-year-old agricultural civilization. Before 1978, China was the most populous developing socialist country with an obvious urban-rural dual structure. Most of the population was subjected to agricultural production in rural areas. More than 80% of the peasants farmed to support less than 20% of the urban population. The poverty rate in rural areas was a startling 97.5%. It is a miracle of reform and opening-up that China, a large country with a population accounting for 1/5 of the world's total, over 80% of which are rural population, has realized large-scale urbanization through reform and opening-up for only forty years.

From 1978 to 2018, China continued to promote the transformation from centralized planned economy to market-oriented economy. The proportion of agricultural added value in GDP declined rapidly, from 28.2% to 7.1%. The urbanization rate rose sharply, from 17.92% to 59.58%. Urban population increased from 172 million to 831 million. Over the past four decades, nearly 700 million people have migrated from rural to urban areas, twice the population in the U. S. or five times that in Japan or five times that in 16 countries in Central and Eastern Europe, accounting for 1/10 of the total global population. The absolute poverty population in rural areas has continued to decrease on a large scale. In the past forty years, 750 million people have been lifted from poverty, contributing more than 70% to global poverty reduction. Urbanization in full swings has fundamentally changed the system of urban-rural segregation where over 80% of the population was subjected to insufficient food, greatly releasing China's labor dividend and driving the continuous optimization and upgrading of China's industrial structure. The primary industrial proportion: the secondary industry: the tertiary industry was 14.4: 45.2: 40.4 in 2001 and 7.1: 40.7: 52.2 in 2018. The manufacturing industry has rapidly leaped to the forefront of the world, with its global share rising from 2.7% in 1990 to 25% in 2018, ranking first in the world for nine consecutive years. The economy has maintained an average annual growth rate of nearly 9.5% over the past 40 years. China's share in global GDP increased from 1.8% in 1978 to 16% in 2018. In 2010, China replaced Japan as the second largest economy in the world. Since the reform and opening-up, China's unprecedented urbanization achievements have attracted worldwide attention.

3. INSTITUTIONAL INNOVATION IS A STRONG DRIVER TO URBANIZATION

Without the institutional innovation through reform and opening-up, hundreds of millions of peasants wouldn't have left the land and rural areas, nor their vitality and motive for production, innovation and entrepreneurship fully mobilized. There would be no miracle of economic development driven by China's sustained and rapid urbanization.

First, the implementation of rural household contract responsibility system and the reform of household registration system have led to significant changes in the rural collective economic system, loosening the restrictions on population mobility. The system of rural household contract responsibility has shifted the production and management right of land from collectives to individuals and households through contracting, in which way individual property rights have been rebuilt on the basis of collective ownership of rural land. Hundreds of millions of Chinese peasants can independently contract, freely control and effectively use the rural land. With the ownership of their labor, they are free to establish township enterprises or work, start a business and live in cities. A large number of surplus labor force locked in rural areas for a long time, has been rapidly released and activated, injecting new impetus into economic development.

The vigorous development of township enterprises is an important result of reform and opening-up, and a powerful driver to urbanization. The reform and opening-up have broken the institutional barrier that rural areas can only engage in agriculture and farmers can only plow the land. The supporting industrial production in cities, especially in big cities, has rapidly shifted to the surrounding countryside. The nationwide rapid development of rural industries and township enterprises has effectively driven the rural industrialization and urbanization. From 1986 to 1990, township enterprises contributed 31.5% to the net increment of China's total social output value, 37.3% to that of industrial output value, 67% to that of rural social output value, and 28% to that of export earning foreign exchange. Nowadays, many listed companies or large and medium-sized private enterprises in China have grown up from township enterprises.

Second, through opening up the market, invigorating state-owned enterprises, and breaking the centralized planned economic system, the market is stepping to play a decisive role in the allocation of resources. Marketization is the orientation of China's economic system reform. The reform has expanded from activating rural areas and farmers to invigorating cities and enterprises. In cities, factors of production agglomerate, enterprises are concentrated, and

the market is activated, allowing for more opportunities to make money. A large number of rural surplus labor flow freely to cities, engage in non-agricultural industries, start private enterprises and so on. The state-owned enterprises in cities decentralize and transfer their power and interests. From allowing workers for contracted management with enterprises taking responsibility for their profits and losses, to establishing a modern enterprise system and developing a mixed ownership economy, the enthusiasm of enterprises and workers has been remarkably enhanced, and the dominant role of various enterprises in national economy has been continuously strengthened. Instead of a radical ownership reform and a comprehensive package of market-oriented strategies, China insists on progressive price liberation and fosters common development of the market and various ownership systems to promote the market-oriented reform orderly.

As marketization advances, the government functions, corporate organizational model and social integrity have been constantly improved to foster a benign interaction between marketization of production factors and institutional innovation. The commodity market steps to be liberalized. The factor market system has been constantly improved. Production factors continue to flow from low productivity sectors (agriculture) and low value-added industries to high productivity sectors (medium to high-end manufacturing) and high value-added industries (R&D, design, professional services and other modern services). Factors of production are concentrating in cities. All of these are boosting the sustained and rapid development of urbanization.

Third, the continuing opening-up has integrated China into the global economic division of labor and cooperation system and China seized the opportunity of the world industrial restructuring and transfer. China's opening-up began in the southeastern coastal areas. In 1979, China set up special economic zones in four coastal cities, Shenzhen, Zhuhai, Xiamen and Shantou, unveiling its opening-up, since when China has orderly promoted all-round opening-up and attracted global industrial investment by a large number of international enterprises. China has boasted the second largest FDI in the world for 13 consecutive years since 2001. By the end of 2018, China introduced more than $2 trillion FDI, and had 960,000 foreign-invested enterprises. China has been actively integrated into the global economic division of labor system, demonstrated by the rapidly growing FDI and OFDI. In 2018, China's OFDI was $129.83 billion, totaling $1.93 trillion, which was close to that of FDI as the second largest OFDI country in the world.

Opening-up and FDI introduction are of great significance to China's economic development. Foreign-funded enterprises not only bring capital, technology and management experience to China, but also expand overseas

markets, develop foreign trade exports and tap into new market demands. In the 1960s American economist Chenery put forward the "dual-gap" model: it is difficult for developing countries to catch up with developed countries because their saving is less than investment and imports exceed exports. China has successfully solved the "savings gap" by attracting FDI and the "foreign exchange gap" by expanding export trade through foreign-funded enterprises. The continuous inflows of external capital and the growing international market demand have absorbed China's huge surplus labor force and created comparative advantages of China's supply, making exports a carriage driving economic growth, and China became the largest trader of goods.

With the expansion of opening-up and the acceleration of urbanization, a large number of emerging cities and influential urban agglomerations have sprung up in the Pearl River Delta, and the Yangtze River Delta has become one of the urban agglomerations or urban belts with the most intensive world industries, scientific researches and talents. Urbanization is expanding from southeast to northwest and from coastal areas to inland areas. China has ranked in the forefront of the world in terms of the number of large and medium-sized cities and mega-cities measured by population. In 2018, there were nearly 100 mega-cities with more than 1 million people. Driven and radiated by big cities, small and medium-sized cities are growing rapidly. There are more than 110 cities with a population of 500,000 to 1 million. The system of large and medium-sized cities is improving.

4. DEEPENING URBANIZATION REQUIRES MORE EFFORTS IN REFORM AND OPENING-UP

In the past 40 years, the rapid development of urbanization in China relies on reform and opening-up and institutional innovation. In the future, the development of high-quality urbanization in China will depend on deepening reform and opening-up and promoting institutional innovation.

First, we should continue to intensify the reform of property right system to clarify and protect the property rights of various factors in urban and rural areas. There is an old saying in China, "no fixed asset, no fixed heart". A stable property right system is the basis of the stability of the economic system. China has basically established the ownership structure with public ownership playing a dominant role and diverse forms of ownership developing side by side as well as an institutional system that various property rights interdepend on and integrate with each other. However, the innovation of property right system should never stop, and the reform of property right still needs to be deepened. The key is to further clarify and protect

various property rights and promote equal competition, fair treatment and voluntary trading of all kinds of resource elements in urban and rural areas, so that farmers can have sustained, stable and long-term expectations for their agricultural land, residential land and rural collective construction land. We should regulate the planning and management of rural land by classifying its use according to law and allow the market to play its decisive role in the allocation of resources, in which way the allocation efficiency and economic benefits of land resources can be escalated. Through the reform of property right system, the legitimate rights and interests of peasants obtaining property income can be guaranteed and their income can be increased continuously and steadily.

Second, we should further break the economic and social system of urban-rural segregation and build a management mechanism and a policy system for urban-rural integration. China's current population (household registration population) urbanization rate is 43.37%, which has an obvious gap with countries at a similar economic development level. Gap is a shortcoming and also potential. Continuously promoting urbanization remains a strong driver for China's economic and social development. China will accelerate the integration of the basic security system for urban and rural residents and improve the basic social and public services for migrant workers working and living in cities. We also need to relax the restrictions on migrant workers' registered permanent residence in cities to decrease the number of farmers and increase that of citizens, so that the level and quality of urbanization of permanent population can be practically escalated. We will expand the pipelines for all kinds of urban capital, enterprises and talents going to rural areas to promote rural revitalization and agricultural modernization in high quality. We should drive rural development and make farmers rich through industrial development, stimulate rural economic vitality, and release new development space. We need to effectively cut institutional transaction costs for reorganizing the flow of urban and rural factors, thoroughly break the institutional mechanism of urban-rural segmentation, and construct a policy system of urban-rural integration.

Third, we should deepen high-level opening-up and promote mega-cities, urban agglomerations and urban belts to be integrated into the international division of labor and cooperative competition system. The Internet and globalization are flattening the world, but mega-cities, metropolitan areas and urban agglomerations are still an important engine of global economic development. China as a large developing country has special advantages and great potential in this regard. With the world's highest standards and best levels as the benchmark, China, in accordance with international rules, should

speed up the opening-up of mega-cities, urban agglomerations and urban belts in an all-round way. We should promote regional coordinated development through the development of large cities and build an economic system which organically integrates large, medium and small cities. We will strive to create a first-class international business environment, improve the livability and internationalization of cities, and accelerate to construct economic center cities with global clout, as well as pool global high-grade elements, high-level talents and regional headquarters of multinational corporations. We should promote to form global investment, sales and R&D centers, in order to engage in international division of labor and the global cooperative competition system at a higher level.