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**Managing the Lewis  
Transition in China  
and India: the End of  
Development  
Models?**

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**Jason Young**

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## ABSTRACT

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The economic rise of China and India provides a unique opportunity to compare the role of internal labour flows in the development of two nations with agricultural populations of unprecedented scale. This paper puts forward a comparison of the formal institutional arrangements of China's *hukou* institution and the arrangements that shape labour migration and segmentation in India. It finds that contrary to arguments in favour of the end of development models, in China formal institutional arrangements continue to shape the development process and act as intervening variables distorting the push-pull and transition forces outlined by economic models of migration such as the Lewis Transition whilst in India this process remains predominantly informal. It concludes that formal institutional arrangements shape labour migration and therefore constitute an important feature of each nation's development model but that these arrangements also differ suggesting a partial explanation for China and India's divergent economic trajectories.

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## ABOUT THE AUTHOR

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## Managing the Lewis Transition in China and India: the End of Development Models?

Jason Young

### The Emergence of Development Models

China and India have both experienced stunning economic growth in recent years. China's GDP (PPP) as a percentage of US GDP has risen from 11% in 1978 to 76% in 2006. India's GDP (PPP) has risen from 16% in 1978 to 32% in 2006 (United Nations 2010).<sup>1</sup> Both countries are also somewhat of an anomaly in the nation-state system with each country having populations over a billion, together representing over a third of humanity. As developing countries with large rural populations, both China and India face similar economic challenges moving away from agrarian based economic systems through the creation of employment in emerging secondary and tertiary sectors. This transition is on-going and is a core feature of their developmental stage. Whilst the economic re-emergence of China and India is stimulating the global financial system, domestically both China and India are still struggling with the transition from agricultural-based economies to economies based on urban industrial and service industries.

This paper looks to the role of government in this transition. This first section discusses development literature, focusing primarily on the Lewis transition and what role a developmental state may play in that transition. The second section presents data comparing various measures of the Lewis transition in

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<sup>1</sup> US GDP (PPP) in 1978 (2.276) and 2006 (13.201); China GDP (PPP) in 1978 (0.299) and 2006 (10.048); India GDP (PPP) in 1978 (0.362) and 2006 (4.247) – trillions.

China and India: urbanisation and internal migration; employment in agricultural, secondary and tertiary industries; productivity of secondary and tertiary labour. The third and fourth sections look to the role of government institutions in managing the Lewis transition in China and India. The final section returns to the question of what role the state plays in the Lewis transition and asks if this constitutes a development model for countries with large agrarian populations.

Before the economic emergence of European economies, China and India made up the bulk of global economic power (Frank 1998). But in the 19<sup>th</sup> and early 20<sup>th</sup> centuries both civilizations experienced humiliation and dependency at the hands of European powers as their economies dramatically stagnated in comparison to the growing might of western economies. After a long struggle for political and economic sovereignty the two powers emerged in the post-war period as independent nation-states but in a state of prolonged and chronic underdevelopment with large and growing populations and a high reliance on the subsistence economy of the agricultural sector. China's communist revolution isolated it from the developed western world and its falling out with the Soviet Union further forced its leaders to follow a policy of independent economic development. Whilst India maintained relations and trade with western powers it too leaned heavily towards the Soviet Union and under the leadership of Nehru the economy was also structured along the socialist model.

In more recent decades leaders in both countries have promoted a more pragmatic approach to development, integrating their economies into and utilising the existing pools of capital, technology and know-how with ever-increasing returns. China has come to be known as the manufacturing centre of the world and India as a global service centre. India and China have increased their GDP, developed their education and health services, and improved their infrastructure and productive output. Goldman and Sachs predicts China's GDP (USD) will overtake US GDP in the late twenties and India will be the third largest economy by the early thirties (Wilson and Stupnytska 2007). Clearly, both India and China are in the midst of a remarkable period of growth and development. What role the government has

played in this development is critical to understanding better the challenges of economic development and growth in heavily populated and predominantly agrarian based economies.

Early in the post-war period, development studies were dominated by what came to be known as modernization theory. The dominant strand of this theory postulated “a uniform evolutionary vision of social, political, and economic development” and had deep roots in classical theory (Chirot and Hall 1982). Stages of economic growth were prescribed universal properties over varying periods of history. Rostow, perhaps the most well-known practitioner, argued “It is possible to identify all societies, in their economic dimensions, as lying within one of five categories: the traditional society, the preconditions for take-off, the take-off, the drive to maturity, and the age of high mass-consumption” (Rostow 1960 p.4). A less than complimentary strand of modernization theory also explained development in the West through a social-psychological model. It argued that Westerners “were possessed by a high need for achievement and rationality” and that this explained how the West became more developed than other parts of the world (Chirot and Hall 1982 p.82).

These theories gave way to sustained criticism from many scholars. *Political Development and Political Decay* provided a compelling critique of the body of work and re-conceptualised political development as institutionalisation (Huntington 1965). The critique from world systems theory looked to deep structural factors as an explanation for the problem of economic development in non-western countries, rejecting both the European exceptionalism argument and the idea that non-Western countries had ‘traditional’ economies. World-systems theory instead argued that the less developed countries were also going through stages of development but this development was something totally different to development in Europe or the US because in those countries on the periphery of the capitalist world system colonisation had created a form of dependency that shaped contemporary development (Chirot and Hall 1982). The ‘Wallerstein-Frank’ school of economic development proposed autarkic closure to break the dependency as the best method of

economic development. Both China and India show this influence as both experienced a period of development where the state moved to forms of self-reliance and broke away from the established international economic system. Then beginning in the late 1970s in China and the late 1980s in India, a return to development models based on integrating into the global economic system saw India and China's governments turn full circle in their efforts to promote economic development. This time however, the experience of the Asian Tigers provided new insight and a refined developmental model for economic growth through integration into the global economy.

The East Asian 'miracle' is a term popularised by a World Bank report on 8 high performing Asian economies over the period 1965 to 1990 (World Bank 1993). The East Asian economies each experienced three decades of rapid economic growth at breakneck speeds (Huang 2005). This success caught the eye of development theorists who argued it characterised a particular model of economic development. Various scholars chose to focus on various factors such as land reform, improved investment, the release of human resources (labour), investment in education (particularly vocational), some effort to control fertility, trade liberalisation, business networks and growth alliances, corporate governance, foreign direct investment, industrial policy and export-led growth (Fatemi 2002). When China's economy also 'took-off' government policy was compared to the model of development established by the East Asian Tigers. Studies have highlighted a similar emphasis on export-led growth, the importance of foreign direct investment and the significance of planning boards and a government with the unity and strength to put in place economic policy with short-term upheaval but long term growth outcomes. A significant difference is however apparent when comparing the economic conditions of China, India and the East Asian Tigers. Clearly, the size of the population in China and India is far higher than even Japan. It is expected therefore that the growth models of China and India will differ significantly to those employed in other East Asian countries. This article focuses on this important difference and seeks to ascertain whether Chinese and Indian

governments employ a developmental model to manage and control urbanisation.

Whilst the majority of political studies concerned with migration have focussed on the estimated 200 million migrants that cross international borders, the number of migrants estimated to live within their home country but outside their region of birth is an astounding 740 million. This mobility is integral to the process of human development. “For communities, regions and nations, human movement brings knowledge, skills and labour to the locations where it is needed to enhance economic productivity and social well-being. For individuals, families and households, mobility provides a mechanism to pursue aspirations and to respond to opportunities” (Bell and Muhidin 2009 p.1). Whilst internal migration is recognised as important for economic development the link is far from certain, “...although the rate of economic growth shows little correlation with the rate of urbanisation, the pattern of economic growth does. In particular, growth based on the expansion of the manufacturing industry is associated with higher rates of urbanisation (after allowing for starting levels) while growth based on the expansion of agriculture is associated with the reverse” (Deshingkar and Anderson 2004 p.1). Moreover, there remains a dearth of research on the various developmental models government utilise to manage population and labour movements. The early work of Arthur W. Lewis is used here to outline the importance of population, urbanisation and labour transfer to the development process allowing the following sections to measure this transition and attempt to ascertain whether government policy can be viewed as an intervening variable.

### *The Lewis Transition*

The ‘Lewis transition’ or ‘Lewis model’ focuses on the transfer of agricultural sector ‘surplus labour’ through internal migration and urbanisation in developing countries and is best exemplified by the article, *Economic Development with Unlimited Supplies of Labour* (Lewis 1954). It was “the received ‘general’ theory of the development process in ‘labour surplus’ Third

World nations during most of the late 1950s and 1960s” (Todaro 1976 p.21). The model dichotomises the economy of developing countries into two sectors: a traditional rural subsistence sector (low productivity; ‘surplus labour’), and a high productivity modern urban industrial and service sector. Development entails transfer of ‘surplus labour’ from the low productivity subsistence sector to the high productivity urban sector through growth of employment in the urban sector. Moreover, “... modern sector growth and employment expansion is assumed to continue until all ‘surplus’ rural labour is absorbed in the urban industrial sector. Thereafter the labour supply curve becomes positively sloped and both urban wages and employment will continue to grow. The structural transformation of the economy will have taken place with the balance of economic activity shifting from rural agriculture to urban industry” (Todaro 1976 p.23). The Lewisian turning point comes when the supply of rural labour from the countryside begins to taper off. At this point it is expected that non-agricultural wages will begin to rise. This signifies a significant turning point in a country’s economic development.

Lewis identified the problem of ‘underemployment’ in countries with large populations where a high percentage of the population is involved in agriculture. “In the over-populated countries the farmers, the petty traders, the domestic servants and many classes of casual labour are not fully occupied. As economic development occurs there is a shift to the new types of employment which open up, and the reduction of ‘disguised unemployment’ shows itself in a relative contraction of the trades which have been carrying the surplus” (Lewis 1955 p.333). From these observations, Lewis concludes one of the best measures of economic growth in a developing country is the measure of the proportion of the labour force involved in agriculture. This is because Lewis argues the move from pre-modern conditions to modern conditions requires first productivity gains in the agricultural sector which then release the ‘underemployed’ who move to urban areas to labour in the secondary and tertiary sectors. If the secondary and tertiary sectors are not developed to the extent they can absorb this labour then the majority of these labourers will remain ‘underemployed’ in the agricultural sector. This makes



the proportion of the labour force involved in agriculture a good measure of economic development.

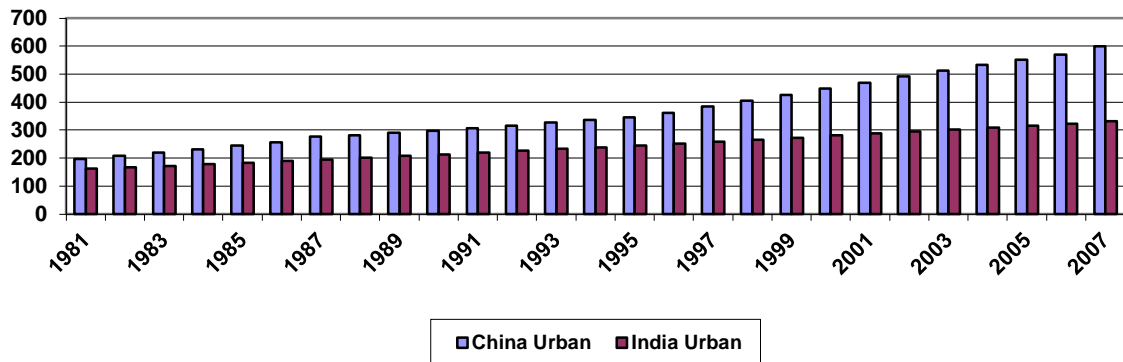
Finally, the Lewis transition obviously requires urbanisation and changing spatial distribution of the population. Lewis points out that the speed of urbanisation can be problematic in countries where economic growth is just beginning. As the population is still growing rapidly and potential labourers are drawn to the high growth in urban areas, overpopulation of these areas can become a problem. This issue is especially problematic in China and India where the size of the rural 'underemployed' agricultural population remains incredibly large. Lewis was also acutely aware of the importance of population growth for economic development and warned "...the individual country which goes through a phase of high birth and low death rates has to pay a substantial economic price for doing so" (Lewis 1955 p.310). Whilst observing that low fertility usually follows economic development, Lewis also noted the possibility that deliberate human control of fertility could also break the link between growth of the population and food supply, thus avoiding the initial growth spurt in population as the death rate drops but the birth rate fails to decrease in underdeveloped rural areas. As the rural populations of both India and China have historically been very high, it is expected that both Chinese and Indian governments regulate this transfer to avoid over-population of urban areas and swamping of the developing urban industries. It is also expected that the Lewisian turning point is still some time away. Demographics in China and India suggest China is far closer than India to this turning point, also suggesting China's economic development, as measured by the Lewis transition, is further ahead than India's.

## **The Lewis Transition in China and India**

The following figures show the size of the rural and urban populations in China and India over the period 1981 to 2007. China's urban population has outstripped the growth of the Indian urban population whilst India's rural

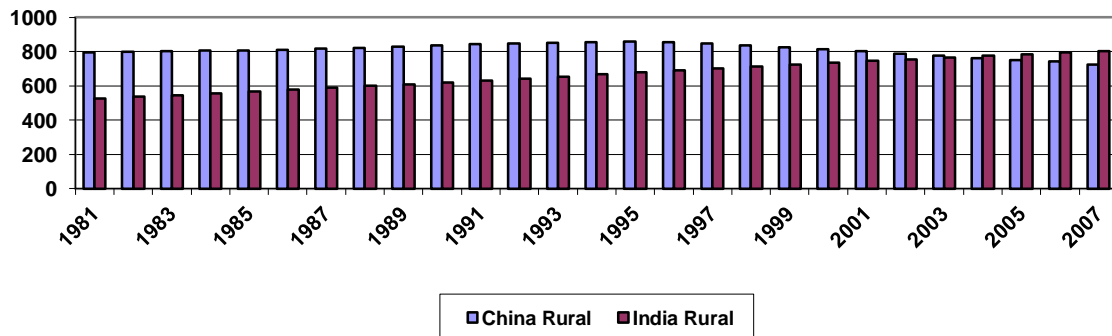
population overtook the Chinese rural population in 2004. Urbanisation in China overtook India in 1988.

**Figure 1: Urban Populations in China and India 1981-2007**



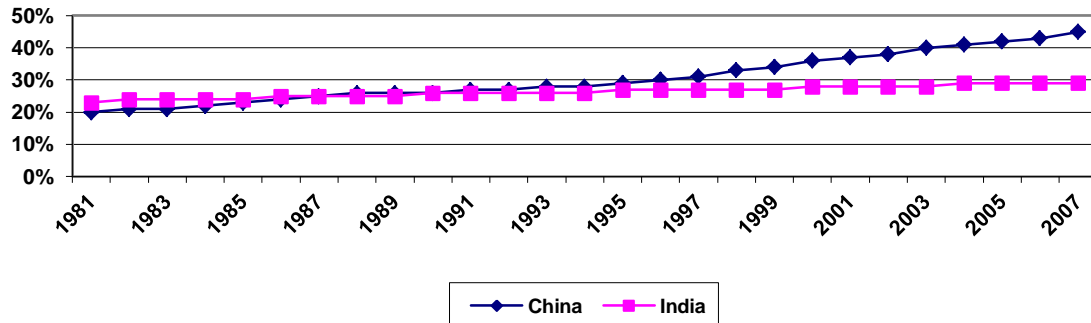
Source: UN Data, <http://data.un.org/>

**Figure 2: Rural Populations in China and India 1981-2007**



Source: UN Data, <http://data.un.org/>

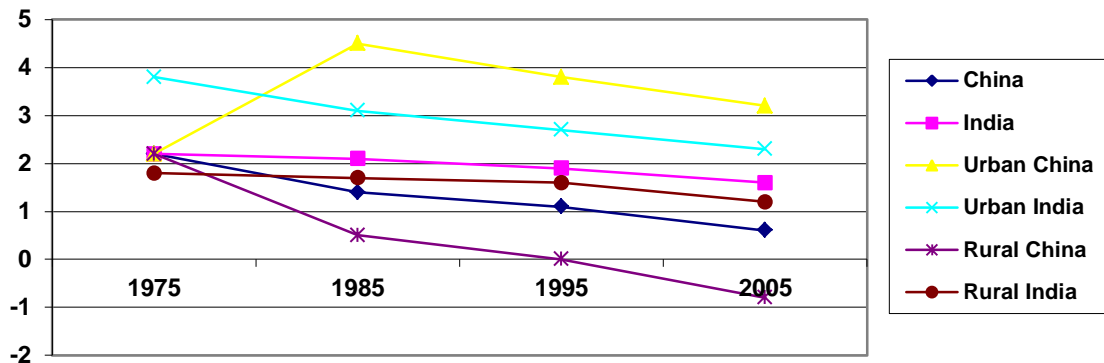
**Figure 3: Level of Urbanisation in China and India 1981-2007**



Source: UN Data, <http://data.un.org/>

From the mid-1990s the Chinese rate of urbanisation began to outpace urbanisation in India. Whilst India's urban population continued to grow, doubling between 1981 and 2007, China's tripled. Moreover, China's rural population first stagnated and then decreased whilst India's rural population continued to grow. Growth rates for the total Chinese population have dropped from over 2% annually to close to zero. Growth in urban areas jumped from 2% annually to over 4% and remains above 3% whilst annual growth in the rural population has stagnated and is now negative. India by comparison started out with the same overall annual growth rate but the decrease over the period has been far less significant dropping only to 1.6% annually, a full 1% higher than China. The urban population growth rate has gone from being higher than China's in 1975 to lower than China's by almost a consistent 1% from 1985 to 2005. Perhaps the starkest difference is evidenced in the continual growth of the rural population in India where in China this has moved to negative growth.

**Figure 4: Annual Growth Rate in Rural and Urban Areas in China and India: 1975-2005**



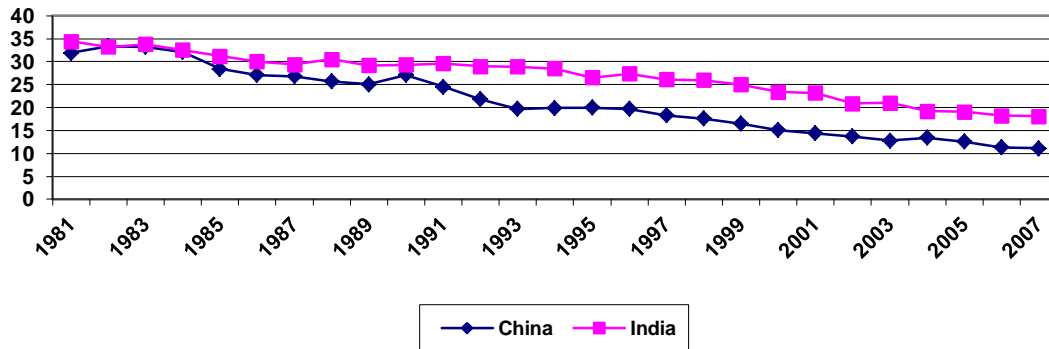
Source: UN Data, <http://data.un.org/>

Internal migration is also lower in India than in China. Bell and Muhidin's comprehensive *Cross-National Comparisons of Internal Migration* (2009) presents data that shows whilst internal migration in Asia in general is lower than developed areas such as Europe and Australasia, it is significantly higher in China than in India. The 2000 census recorded 73 million interprovincial lifetime migrants in China whilst in India the 2001 census only recorded 42 million interstate lifetime migrants. China's level of internal migration intensity was 6.193% compared to India's 4.141% (Bell and Muhidin 2009). Evidence of both population mobility and urbanisation are on these scales higher in China than India. These demographics therefore suggest the Lewis transition is more advanced in China than in India.

Lewis (1954) argued an important part of the Lewis transition was not only urbanisation but the transfer of labour from the agricultural sector to secondary and tertiary industries and the increasing contribution of these industries to the national economy. Again, the evidence suggests China has gone further along this process than India. The following figures show the value added of agriculture as a percentage of GDP from 1981 to 2007 and level of growth and employment in the primary, secondary and tertiary sectors of the Chinese and Indian economies. Significantly, the contribution of agriculture to GDP has dropped faster in China than India and the industrial and service sectors are more productive, employ more people and earn more

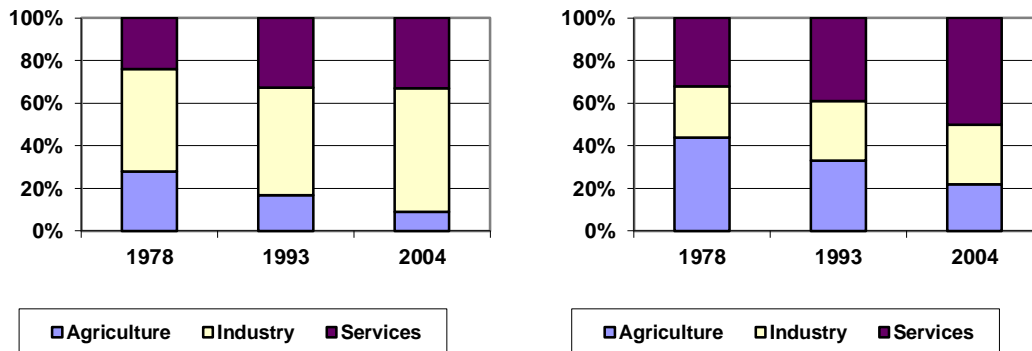
revenue for China than India. The transition away from an economy primarily based on agriculture to one with highly productive secondary and tertiary industries has occurred faster in China than in India.

**Figure 5: Contribution of Agriculture in China and India, value added, % of GDP, 1981-2007**



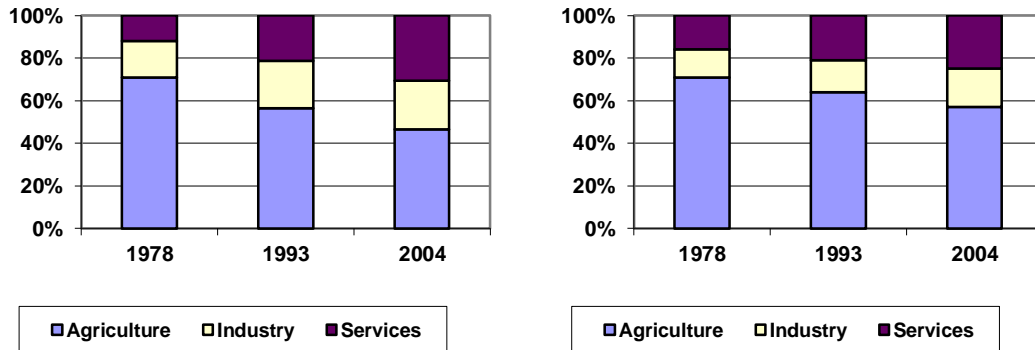
Source: UN Data, <http://data.un.org/>

**Figure 6: Value Added by Industry in China (left) and India (right)**



Source: Data from Bosworth and Collins 2008 p.57

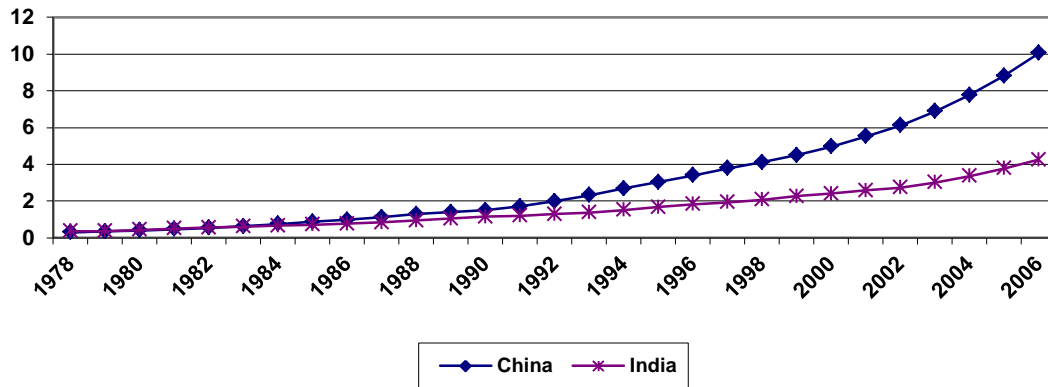
**Figure 7: Employment by Industry in China (left) and India (right)**



Source: Data from Bosworth and Collins 2008 p.57

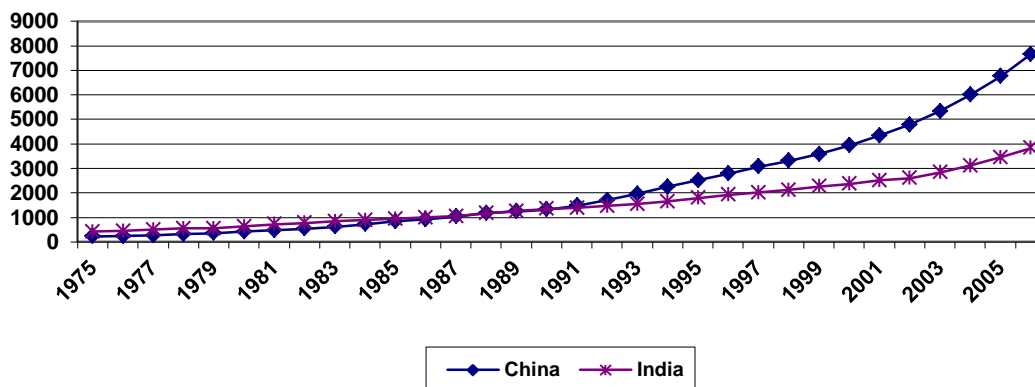
The growth of the manufacturing sector in China is particularly striking compared to the growth in India. Moreover, growth in the service industry shows Chinese services are not only more productive but they also employ more people than in India. This evidence should also, according to Lewis (1955), be a good measure of the level of economic development. As the Lewis transition proceeds and more rural labour moves into the economically productive tertiary and secondary sectors, Lewis argues, capital should accumulate and trade and industry flourish. The following data supports this assertion as it shows China's growth outstripping Indian growth as expected by China's more rapid transition through the Lewis model. China has both a higher gross domestic product than India and a higher GDP per capita. India's GDP per capita was higher than China's until 1991, about the same time that China's population growth dropped in rural areas but increased in urban areas and overall GDP expanded considerably.

Figure 8: India and China GDP, 2008 international dollars (PPPs) (trillions; 1978-2006)



Source: UN Data, <http://data.un.org/>

Figure 9: India and China GDP per capita, 2010 international dollars (PPPs) (1975-2006)



Source: UN Data, <http://data.un.org/>

These results suggest population growth and spatial distribution are an essential aspect of the development process. India's economic development compared to China's, is hampered by continual growth in rural areas and limited urbanisation. As growth in rural areas continues, the mass transfer of

labour from rural to urban areas becomes increasingly difficult due to this continual growth. China by comparison has been able to transfer rural labour to the productive urban industries and this is a large part of the success of its emergent secondary and tertiary industries. China's urbanisation is more advanced than India's not only because of a higher rate of transfer from rural to urban (both through migration and expansion of urban areas) but also through the slowing birth rate. As China's birth rate has slowed this creates opportunities in urban areas and urbanisation drains the population from rural areas to meet these opportunities. China's economy has developed faster than India's and this is reflected in the proportion of people involved in agricultural and non-agricultural employment as well as the proportion of people living in urban areas.

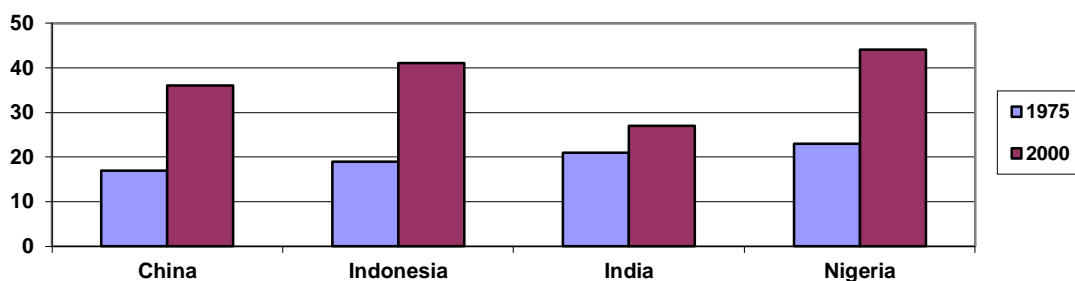
Governments in both countries recognise the importance of managing the Lewis transition as evidenced by data in the United Nations *2005 World Population Policies*' synopsis of government views and policies relating to population growth, spatial distribution and urbanisation (United Nations 2008). Whilst in 1976, 1986, 1996 and 2005, Indian officials considered the population 'too high' and had policy to lower growth, Chinese officials moved from considering the population 'too high' to 'satisfactory' in 1996. Moreover, by 2005 Chinese officials had reportedly adjusted the policy of lowering the size of the population to one of maintaining it. In terms of spatial distribution, Indian officials have consistently desired major change and sort to lower rural to urban migration, especially migration to urban agglomerations. Chinese officials reportedly only desire minor change and in 2005 declared a policy to raise rural to urban migration, including to urban agglomerations. In summary, both demographic and economic statistics as well as United Nations' reports on government policy suggest the Lewis transition is much more of a concern for Indian officials than Chinese who seem to have been able to manage the transition and be well on the way to reaching the Lewisian turning point. The following sections set out the role of government in each country in managing and guiding this transition.



## Managing the Lewis Transition in India

The previous section showed demographic and economic evidence of the Lewis transition in India and China and found that urbanisation, internal migration and economic growth through non-agricultural industries is significantly lower in India. India's lack of population mobility in particular urbanisation, is particularly striking when compared to similar developing countries with large populations. Rates of urbanisation in India remain low compared to rates in other developing economies. India's urban population accounted for 28.4% of the total population in 2000, roughly 15% lower than urban population rates in countries with similar levels of GNP per capita (Deshingkar and Anderson 2004). This is true even though incomes in urban areas have been rising faster than incomes in rural areas accentuating the classical push and pull economic rationales to urbanise.

**Figure 10: Urbanization in China, Indonesia, India and Nigeria**



Source: Adapted from Munshi and Rosenzweig 2009 p.41

This raises the important question of why this is so. Three possibilities are explored. The first is that the Indian government has formal institutions to restrict internal mobility and urbanisation and this has lowered urbanisation. The second explores the importance of informal institutions, culture and

society and asks if there is something unique about Indian society that has led to lower than expected levels of urbanisation. The final possibility explored is that India's level of economic development and more importantly its form of economic development has not provided urban employment and this has discouraged would-be migrants from leaving their rural homes. The first two explanations suggest there are intervening forces shaping the Lewis transition in India. The final explanation suggests the lack of labour mobility is more a symptom of India's slow uptake to modern economic arrangements.

The first trend that becomes clear in the literature on India's labour regulations is the strong historical approach to protecting the rights of Indian workers from exploitation and poor working conditions. Labour advocacy and autonomous unions have a history of effecting change in labour relations between employer and employee and whilst the power of unions has been rolled back to some extent in recent decades, employees in India clearly have a better record providing good working conditions for their employees. Some scholars studying India's economic development over the last few decades have argued these 'pro-worker' labour regulations are in fact a hindrance to economic development and labour mobility. Besley and Burgess (2004) conducted a study of state amendments to the Industrial Disputes Act (1947) from 1958 to 1992. Their comparison of 'pro-worker' or 'pro-employer' amendments with the growth of manufacturing led them to conclude "...that pro-worker amendments to the Industrial disputes Act are associated with lowered investment, employment, productivity and output in registered manufacturing. Regulating in a pro-worker direction is also associated with increases in urban poverty" (Besley and Burgess 2004). This shows that there is some evidence that India's economic development, as compared to the development of China, is slower due to labour regulations that protect the rights of workers and uphold labour standards. If labour standards lower economic growth they also reduce the opportunity for labour mobility and can therefore be seen as an intervening variable in the form of government regulation of the Lewis transition.

Another important feature of the government's role in managing the Lewis transition is the absence of a regulatory mechanism for slowing, managing, directing or controlling movement and residency within the Indian state. This is particularly surprising considering the low rate of migration and urbanisation in India. Some studies have shown that residency in China has a large impact on the rate of internal migration and urbanisation, particularly permanent migration (see next section) but a review of Indian residency laws suggest a similar system to China's *hujū* system is not in place. Formal laws and regulations in fact act in the opposite direction. The Indian Constitution (amended in 2007) states all citizens have the right to equality, including the right not to be discriminated against on grounds of place of birth. Titles and 'untouchability' have been constitutionally abolished. Article 19 of Part III of the constitution, the *Right to Freedom*, clearly states that all citizens have the right to move freely throughout the territory of India, to reside and settle in any part of the territory of India, and to practise any profession, or to carry on any occupation, trade or business (Government of India 2007). Formally, the Government of India does not impede labour and population mobility; in fact these freedoms are clearly protected in the constitution. Qualifying for a change of residency in India is also far simpler than in China. The right to vote is constitutionally protected and each citizen over the age of 18 has the right to vote in the area they 'ordinarily reside'. If a migrant moves to a new area they fill in a form notifying the electoral office of their change of residency and they have the same rights as local citizens do to vote (Election Commission of India 2010). Therefore, the formal institutions of government are not structured to inhibit migration by reducing the rights of migrating citizens.

The next consideration of India's formal institutional framework is the role of the bureaucracy in the management of population growth and mobility. Here again, the actual regulations and laws of the state do not act as an impediment or as an intervening variable in the movement of Indian citizens. However, upon further consideration various informal characteristics of the Indian bureaucracy present themselves as problematic. The most serious

issue concerns corruption and the misuse of constitutional and legal mechanisms. Corruption in India is considered to be institutionalised with a general belief the status quo cannot be changed. Moreover, the constitution and legal rulings originally intended to protect India's civil service from arbitrary dismissal has led to long protracted legal rulings that act to guard the civil service from allegations of corruption and misuse of power (Dwivedi and Jain 1988). If the bureaucracy is still as dysfunctional and corrupt as Dwivedi and Jain suggest, then this will have a detrimental effect on population mobility and urbanisation.<sup>2</sup> Migration involves a change of residence, a change of electoral entitlements and in many cases re-issuing or confirmation of ration cards and important documents such as marriage certificates. A dysfunctional and corrupt bureaucracy will significantly increase the costs of migration through the addition of bribes and the problem of time-wasting and therefore discourage population mobility and urbanisation.

A further consideration for the lack of population mobility in India is the role Indian cultural values and norms play, especially in rural areas. Some studies suggest these practices are not conducive to migration and urbanisation for a large section of the Indian populace. The caste system has been singled out in this regard. One study suggests the persistence of low spatial mobility in rural India is due to the existence of sub-caste networks that provide mutual insurance to their members (Munshi and Rosenzweig 2009). Rural workers in India are less likely to out-migrate because the act of migration separates them from these informal networks which provide much of their social and economic security as well as their cultural, ethnic and religious identity.

The final observation rests on the nature of the relationship between economic development and population mobility as theorised by the Lewis transition. If population mobility is a necessary prerequisite for economic development in the form of rural labour moving into the more productive secondary and

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<sup>2</sup> Recent news reports concerning the state of corruption and bureaucratic governance in China suggest this issue is still very much of central concern for India's economic and political development. See: Bajaj 2010.

tertiary sectors in urban areas, economic development is also a prerequisite for migration. Simply put, labour transfer cannot occur without the creation of urban jobs through economic development and economic development requires the movement of the rural labour force. The two factors are concomitant and it is hard to tease out the causal relationship between the two. Their interdependency makes one reliant on the other. If economic development was as simple as ensuring population mobility (population mobility causes economic development) or population mobility only occurred after the development of industry, we would have a very simple problem to solve in the Indian case. We would then argue that economic development is hindered by the lack of population mobility or alternatively that the lack of population mobility represents a lack of economic development. The relationship is regrettably not that simple.

The Lewis transition is a predominantly economic theory that states an important part of the economic development of a national economy is the move from economic arrangements characterised by a high proportion of the labour force being employed in the agricultural sector to economic arrangements where the majority of employees are involved in highly productive work in secondary and tertiary sectors in urban areas. In India we have seen that the economy has developed rapidly over the period of study. However, we have also noted that the population has continued to grow at a rapid rate. If the population continues to grow it is expected that economic growth can occur *without* a major transfer of labour from rural areas. Rather, the natural growth in urban areas will continue to supply developing industries and the growth in rural populations will remain underemployed in the agricultural sector and only very little will be transferred to urban employment. Here, the argument is not that India's economy has failed to grow but rather that the growth in the Indian economy has not been sufficient (as measured by the growth in rural population) to allow for a mass transfer of labour from the rural areas. In this case the Lewis transition is obscured and limited by continual growth in the rural population. Moreover, the form of growth is also significant. The lack of

manufacturing employment in India severely decreases the available employment opportunities for potential migrants.

*“...countries such as China, whose comparative advantage lies mainly in labour-intensive manufactured products and who have in the past tended to receive few trade concessions from rich countries, will see an acceleration of rural-urban migration, both temporary and longer term, following trade reform. The driving force will be the expansion of labour-intensive exports, which will boost the demand for labour in urban areas, and raise wage gaps between rural and urban areas. India’s manufacturing base is smaller than China’s, its comparative advantage instead lying in the export of skilled services related, e.g. to the IT industry. Additional urban demand for unskilled or semi-skilled work of the kind that migrants from rural areas can offer might therefore be secondary – i.e. generated by the construction and other work derived from such industries – rather than direct” ( Deshingkar and Anderson 2004 p.4 )*

Finally, when considering the population and urbanisation data presented by the Indian Government it is important to consider if the entire population residing in India, especially in urban areas, is accounted for. The issue of homelessness questions the ability of the state to competently measure the true number of the urban population as “...homelessness is also associated with the lack of a ... ration card, and reflects disconnection from society and the loss of citizenship ... street homeless people do not have ration cards making them entitled to important nutritional supplements, the right to vote and access a range of services” (Speak and Tipple 2006 p;.10). Local area studies also suggest urbanisation and migration is increasing rapidly as in China, “...a number of recent village studies from different parts of India show a sharp increase in population mobility, including long term and temporary migration as well as commuting...” (Deshingkar and Anderson 2004 p.2). The advent of slums in places such as New Delhi also attests to the increasing prevalence of rural to urban migration on an increasingly permanent basis. “Migrant workers have no access to subsidised grain at their destinations and spend a sizeable portion of their wages on basic food supplies. Spending on rents is also substantial. One of the more serious costs of migration is on

children's schooling. When entire families migrate, children stay behind to do the household chores while the parents work" (Deshingkar and Anderson 2004 p.3).

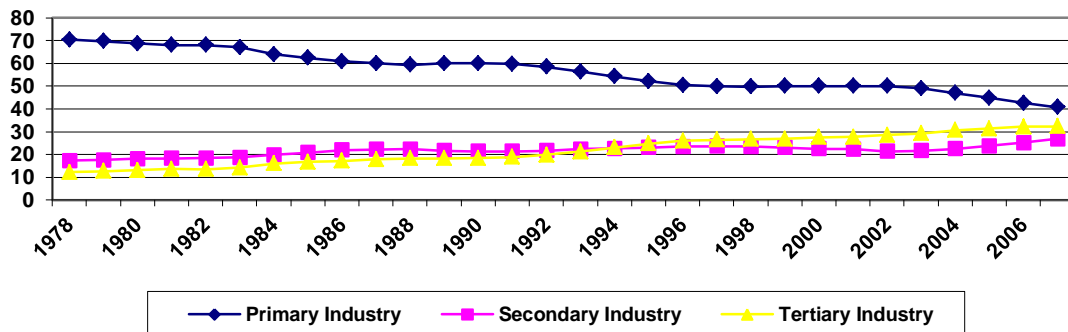
In summary, this case suggests population mobility and urbanisation in India is low compared not only to China but also compared to other developing countries. Leaving the debate over the influence of pro-worker regulations to one side, formal institutions of governance are not designed to directly impede or slow urbanisation or manage the Lewis transition, informal practices of government and various cultural and social norms play a role. The government has not directly tried to manage the Lewis transition but this is still occurring through informal government and cultural practices. Moreover, India's form of economic development has not created the necessary urban employment especially considering the continual growth of the rural population. Questions also remain concerning the true number of urban migrants in India's urban centres. The next section presents the case study of China and seeks to ascertain what role the government has had in managing the Lewis transition there. As will become clear, the response of Chinese officials to the massive task of developing the economy and shifting the rural labour force into more productive urban labour has been astoundingly different to that of Indian officials.

## **Managing the Lewis Transition in China**

Turning to China a completely different story emerges. Perhaps one of the most significant findings for China is the growth of urban areas. Not only has China's urban population increased dramatically over the period of study but so too has the actual size of urban areas. Urbanisation in this case is not only attributable to rural to urban migration but also to the expansion of urban areas into previously rural areas. Whilst this expansion does not necessarily mean the rural citizens are accorded 'urban residency', it does mean they are recorded as urban and are occupied by non-agricultural employment and urban living, the fundamental requirement of the Lewis transition. One study

found that from 1995 to 2000, urban cores at the county level grew from an average 1792 hectares to 1857 hectares, and that “...the size of the urban core expanded with the economic growth: when the economy rose by 10 per cent, the size of the urban core rose by 3 per cent” (Deng et al. 2010 p.833). This provides further evidence that not only is China urbanising through population mobility but that the geographical growth of urban areas is also creating a more urban China. The following figures outline the level of employment in the primary, secondary and tertiary industries over the period 1978 to 2007. Agriculture has dropped from 70% of all employment to 40% in 2007. The number of people working in secondary and tertiary industries has accounted for the drop in agricultural employment as a proportion of the whole. Employment in urban areas has grown from 20% to 40% of all employment.

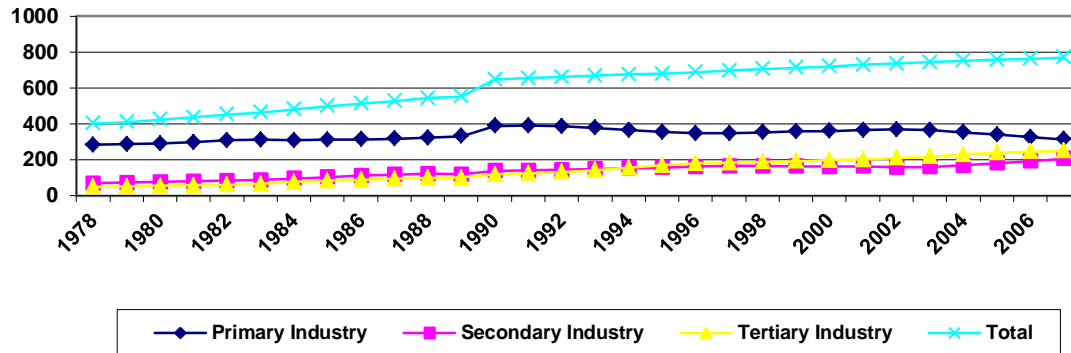
Figure 11: Employed Persons in China by Three Strata Industries 1978-2007 (%)



Source: National Bureau of Statistics (NBS) 2008, p.18

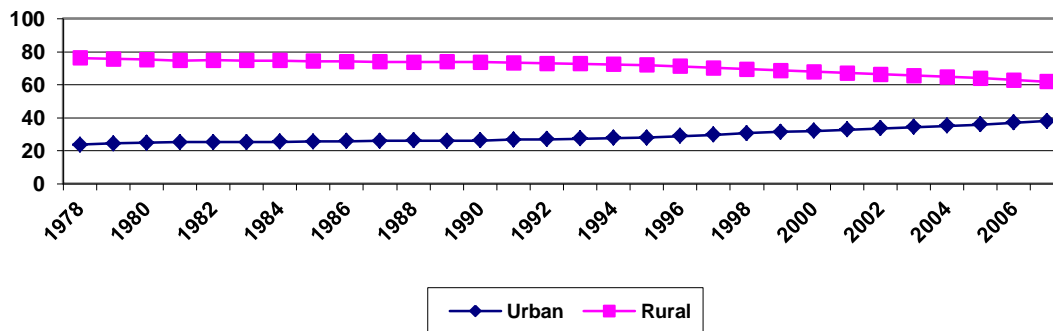


Figure 12: Employed Persons by Three Strata Industries 1978-2007 (millions)



Source: NBS 2008, p.18

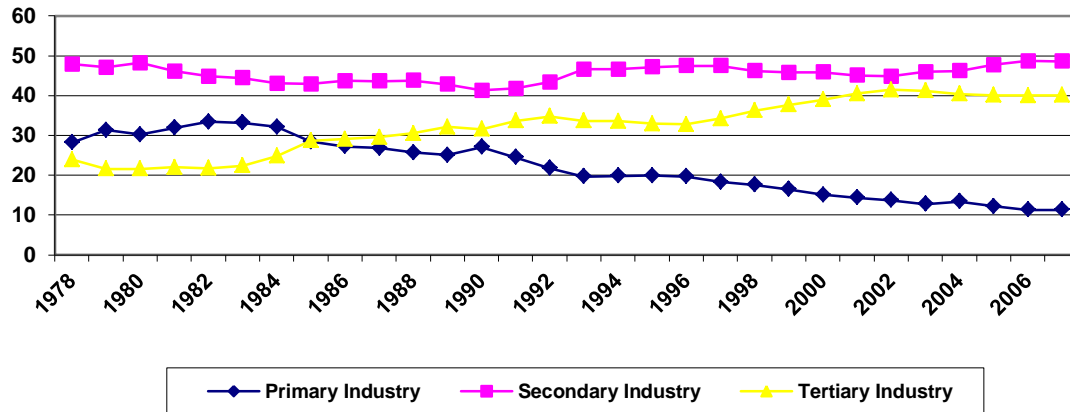
Figure 13: Employed Persons in Rural and Urban Areas 1978-2007 (%)



Source: NBS 2008 p.17

As the population has moved from rural employment in the primary sector to urban employment in the secondary and tertiary sector (manufacturing and services) China's economy has grown rapidly. The following figures show the drop in the contribution of agriculture as a percentage of GDP and the outstanding growth of secondary and tertiary industries.

Figure 14: GDP by Three Strata Industries 1978-2007 (%)



Source: NBS 2008 p.33

Table 1: GDP Growth in Three Strata Industries (Yuan, 2008 prices)

	1978	2007	Growth factor
Primary	102.8 billion	2.8 trillion	27 times
Secondary	174.5 billion	12 trillion	70 times
Tertiary	87.3 billion	10 trillion	115 times
Total	364.5 billion	25 trillion	68 times

Source: NBS 2008 p.33

From this we can see that compared to India, China is urbanising at a far quicker pace. It is also clear that China's economy has higher GDP and a higher GDP/capita rate. More people work in non-agricultural employment and these industries create greater wealth for the overall economy through higher rates of productivity. This all suggests that the Chinese economy is progressing rapidly through the Lewis transition and approaching the Lewisian turning point. The timing of this turning point is a highly debated field of research in China (see Cai 2008). The question of utmost interest to this study however is what role the Chinese state has played in this transition. Turning to an analysis of state policy over the reform era it becomes clear the state has been an active participant in the development process through the

maintenance and adaptation of the *huji* system, often known as the *hukou* system or the household registration system.<sup>3</sup>

The *huji* system is a formal institution of nationwide residency permits that guide migration and residency in China. The critical feature of these permits is the entitlements they provide their holders. *Hukou* is ‘China’s first credential’ (Tian 2003) and entitlements to *hukou* are decided by local government officials. Permanent *huji* residency is strictly controlled by officials wary of overpopulation in desirable urban areas and mounting service delivery costs. Because of the tight control over *hukou* transfer (transferring one’s residency to a new area) hundreds of millions of Chinese migrants fail to obtain a change of residency at destination. The majority of these migrants are rural labourers with agricultural *hukou* status. The *hukou* system remains poorly understood even after recent attempts by a group of editors in China to highlight the significance of it to the Chinese governing system made international headlines (Branigan 2010). This group of editors put out a joint call for an end to *hukou* dualism and discrimination of migrants. They highlighted migrant’s inability to change their residency from ‘agricultural’ or ‘non-local’ when migrating into urban areas to take work in the developing secondary and tertiary sectors. The joint editorial was issued at the time of the annual National People’s Congress sitting and called on representatives to reform the system to conform to the constitution (Nddaily Editors 1 March 2010). Regrettably, this joint appeal has not influenced state policy to date.

*Hukou* has a long history in China and its importance to dynastic ruling systems should not be understated (see Wang 2005, Lu 2003). However, it was not until the late 1950s that the current regulation dividing urban and rural populations was implemented. The *People’s Republic of China Hukou Registration Regulation* was adopted by the Standing Committee of the National People’s Congress on 9 January 1958. Article 1 clearly sets out the rationale for these measures, stating, “This regulation is formulated in order to maintain social order, protect the rights and interests of citizens, and to be of

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<sup>3</sup> 户籍制度/户口制度

service to the establishment of socialism.”<sup>4</sup> Lu Yilong (2002) argues that the law was designed primarily to establish social order and stability and to decrease migration pressures on the cities struggling with unemployment after decades of upheaval as well as to allow the government to establish ‘work order’ through the socialist planned economy (Lu 2002). Both outward and inward migration (temporary and permanent) are managed by the Public Security Bureau and without going through the process of applying to leave, to migrate and to enter a new area, both temporary and permanent migration, prior to more recent reforms, was essentially against this regulation. Migration, most importantly permanent migration, from rural areas to urban areas was strictly controlled by the above process. The *hukou* institution acted as a fundamental feature of the command economy as ‘work units’ and cooperatives became responsible for *hukou* administration and applications, giving central planners extensive powers of management and social control.

The *hujì* system has two fundamental forms of dualism, agricultural/non-agricultural and local/temporary. The first division has traditional antecedents that go back as far as the very beginnings of political life in China (Wang 2005). In the late 1950s the division of agricultural and non-agricultural *hukou*<sup>5</sup> institutionalised the traditional division of rural and urban areas. Non-agricultural *hukou* holders were allocated employment in China’s urban command economy whilst agricultural *hukou* holders were organised into rural collectives that passed on set state quotas of grain and other agricultural products to supply the industrial development in urban areas. The ‘breakdown’ of this division is one of the fundamental features of the reform era in China.

The second dualism in the *hukou* system is the division of local and non-local status. Prior to the reform era the division was simple. All citizens in China were allocated their *hukou* status in a set *hukou* zone based on the location of their mother’s *hukou* status. Local status provided the bearer with local

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<sup>4</sup> “为了维持社会秩序，保护公民的权利和利益，服务于社会主义建设，制定本条例。” People’s Republic of China Hukou Registration Regulations 中华人民共和国户口登记条例 (1958)

<sup>5</sup> 农业和非农业户口

provision of employment, state services, healthcare and education (varying widely over rural/urban and differing areas of development). Movement ‘outside the plan’ was essentially shut down because without changing one’s *hukou* status a citizen did not have access to what Dorothy Solinger describes as the ‘urban rationing regime’ (Solinger 1999). However, since the early 1980s an increasing amount of migrants have moved outside of their *hukou* zone, predominantly from rural areas to engage in non-agricultural employment in the rapidly growing secondary and tertiary industries. This has created another class of migrants which have been institutionalised by government regulations introducing ‘temporary permits’ for what are known in China as non-*huji* or non-*hukou* residents.<sup>6</sup> This has created the following *hukou* categories in China’s urban areas.

Table 2: Four Categories of Urban Workers

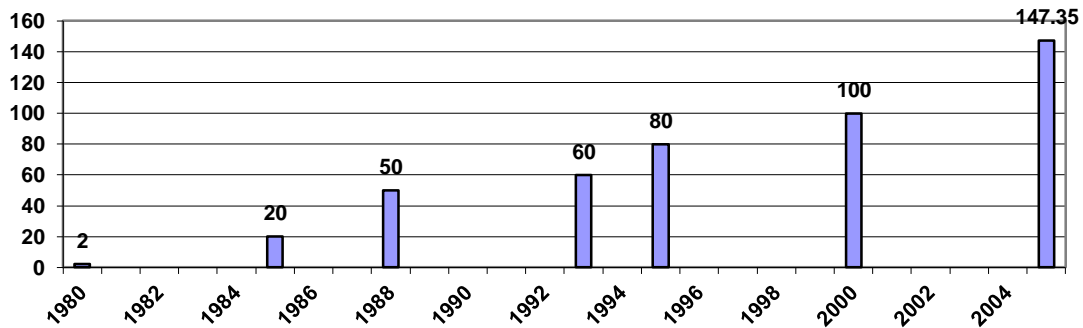
	Agricultural	Non-agricultural
Local	Local <i>nongmin</i> swept up in the ‘urban sprawl’	The permanent population
Non-local	Temporary workers from rural areas	Temporary workers from other urban areas

Non-local *hukou* status has significant disadvantages for migrants. Firstly, they are not entitled to a range of local government entitlements and services such as education and healthcare subsidies. Secondly, they bear the brunt of employment discrimination. Thirdly, they are considered temporary making integration into the established socio-economic environment in urban areas extremely difficult. Whilst some cities are slowly abolishing the agricultural/non-agricultural division (Chan and Buckingham 2008) and many cities are experimenting with greater levels of *hukou* transfer (Wang and Liu 2006) these divisions remain significant to emerging migration and urbanisation patterns because agricultural *hukou* holders that migrate to urban areas in search of employment and livelihood opportunities are relegated to a second-tier institutional status. They fail to obtain non-

<sup>6</sup> *Provisional Regulations Regarding the Management of Temporary Residents in Cities and Towns* 《关于城镇暂住人口管理暂行规定》 1984

agricultural local *hukou* status but lose the benefits of their local rural *hukou*. They become *nongmingong* or what is known as the ‘floating population’, non-agricultural non-local temporary *hukou* holders who nonetheless live urban lives and contribute to the non-agricultural urban economy. Local *hukou* holders with agricultural *hukou* also exist as urban workers and are also relegated to a second-tier institutional status. The number of people counted as urban remains far higher than the number of people with non-agricultural *hukou* status.

Figure 15: National Floating Population 1980-2005 (millions)



Source NBS 2006 p.114

**Table 3: Urbanisation and MPS Hukou Type in 2007**

	Total Population	Urban	Proportion	Rural	Proportion
Level of Urbanisation	1321	594	45%	727	55%
	Total Population	Non-Agricultural	Proportion	Agricultural	Proportion
MPS <i>Hukou</i> Type	1309	431	33%	878	67%

Source: NBS 2008 p.5 & p.293

The statistics presented earlier in this section showed that comparatively China is far ahead of India in terms of urbanisation. However, even though China’s urban population reached around 600 million in 2007, the number of

non-agricultural *hukou* holders was a mere 431 million.<sup>7</sup> *Hukou* therefore acts to slow population mobility, especially permanent or long-term migration to urban centres, by decreasing the desirability of rural to urban migration by withholding urban residential rights. The level of urbanisation sits 10% higher than the level of non-agricultural *hukou* status. *Hukou* rates, temporary permits and strict *hukou* transfer policies constitute a development model providing tools for the state to not only slow the rate of urbanisation but to also shape the direction and flows of people to areas of China deemed in the interests of local and central planners.

‘Urbanisation from below’ is a term denoting official efforts to urbanise less densely populated areas of China as part of the Chinese developmental process (Fan 1994). The state uses *hukou* status as a means to influence the direction of migration. This is done by maintaining strict criteria on both the distribution of temporary permits and especially on the allocation of *hukou* transfer in areas already heavily urbanised and over-populated. Areas the state wishes to promote rural to urban migration to can then lower the entry criteria for permanent *hukou* transfer and thus encourage migrants to settle there. *Hukou* status is a significant determinant of life opportunity in the city as non-*hukou* migrants with agricultural *hukou* status are generally relegated to the lower end of the economic employment spectrum. Migrants that obtain *hukou* transfer are significantly advantaged as they have the same political and economic rights as the local population. Therefore, the state has a powerful instrument to shape urbanisation and population mobility processes. The following table sets out a selection of regulations that have been used by the state to provide incentives for potential migrants to settle in areas assigned by the state.

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<sup>7</sup> This is still 100 million higher than India’s urban population

**Table 4: Regulations Encouraging ‘Urbanisation from Below’**

Year	Regulation
1984	<i>State Council Notification Regarding the Problem of Nongmin Settling in Market Towns</i> 《国务院关于农民进入集镇落户问题的通知》
1997	<i>Blueprint for Experiments in Small City and Town Huji Management Reform</i> 《小城镇户籍管理制度改革试点方案》
2001	<i>Recommendations Regarding Accelerating Reform of the Small City and Town Huji Management System</i> 《国务院批转公安部关于推进小城镇户籍管理制度改革意见的通知》

A series of regulations have also been designed to encourage migration of people with particular characteristics into highly sought after urban areas through *hukou* transfer. This began with the localisation of *hukou* management in the late 1980s and early 1990s through the increasing advent of illegal *hukou* sales by local government and a series of Green/Blue Chop *Hukou*. Blue Chop *Hukou* were intermediary *hukou* close to permanent local *hukou* status and far above the temporary status most rural migrants are relegated to. Obtaining this type of *hukou* required significant investment in the urban area or employment skills relevant and required for local development. This was followed by a series of local moves to set out *hukou* transfer policies that encouraged the inward migration of not only party cadres, military personnel and relatives of locals, as historically had been the case, but also the inward migration of talented employees, highly educated graduates, business entrepreneurs and property owners. These competitive *hukou* transfer procedures act as an important developmental tool at the local government level and further show that not only does the market shape the migration and urbanisation process in China but that the state also has the regulatory means to manage the Lewis transition through the *huji* system.

In summary, the role of the *hukou* system in China is significant. Development specialists and economists need to pay more attention to the way it shapes urbanisation and population mobility in China. The state has made significant efforts to manage the Lewis transition through the *huji* system, in particular to



stimulate economic growth through the creation of temporary permits and the targeted migration of citizens, to maintain stability through the surveillance and security of the population, to manage and direct the flow of urbanisation through the creation of differing residency schemes for potential migrants and to encourage migrants with particular skills or capital to transfer into local areas. The comparison with India, where the state does not directly manage the Lewis transition, and China, where the state is very effective at managing the Lewis transition, raises a series of questions relevant to developmental models for the early process of economic development in states with large rural populations.

## **The End of Development Models?**

Finally, we return to the original question regarding the use of development models in developing countries. The debates that pervaded the second half of last century focussed on the role of government in economic development and led to a selection of development models being ascribed to the process of development, particularly in East Asia. This paper has gone some way to showing that government regulation of urbanisation and migration is also a means for government to influence economic development through management of the Lewis transition. In countries with large rural populations it is perhaps unsurprising to find a role for government in this transition. In China, the role has been lessening as the transition reaches the critical Lewisian turning point, though past results may make it hard for local government in particular to relinquish control over residency. In India, the role of government in the transition, whilst formally absent, informally remains important and socio-cultural attitudes and norms act powerfully to manage the movement and residency of Indian citizens within the bounds of the nation-state. Overall, China is both more advanced as measured by the Lewis transition and the government more formally in control of the process.

And so, the evidence collected here suggests a very definitive and well planned development model in China for managing the Lewis transition whilst in India there is an absence of a coherent model. For India, the Lewis transition is

controlled more through informal government methods and a strong cultural tendency hindering a large section of the poor in society from being able to urbanise and be socially mobile. In both cases evidence of the Lewis transition was found but China was found to be far closer to the Lewisian turning point than India. China has controlled population growth, transferred labour from agricultural to non-agricultural employment and developed the secondary and tertiary sectors whilst maintaining strict residency criteria and introducing a new sub-residency institutional tier. This suggests two things. Firstly, the Lewis transition can be managed to some degree by government regulations and enforcement. Secondly, management of the Lewis transition favours prolonged and controlled economic development in the early stages.

From this perspective it would seem at the very least *economically* beneficial to manage the early stages of the Lewis transition in a manner such as what the Chinese state has done with the *hujia* institution. By controlling population growth in particular, Chinese officials have shaped conditions more conducive to the mass movement of people from rural to urban areas. This movement has been guided and managed reducing some of the more negative issues associated with rapid uncontrolled urbanisation. However, this has not been without a cost. The creation of a new intermediary institutional status of 'temporary residents' suggests the Lewis transition has in some way been retarded with present and future economic and political ramifications. As the economy develops, the state that fails to shed the restrictive and blunt instruments of government is in danger of either dampening the political and economic vibrancy and dynamism so necessary for a developed economy or creating ideal conditions for regime change. In the case of China, we can argue the *hujia* system should be seen by the party-state as a temporary feature of the developmental state and plans should already have been made to liberalise the system to avoid firstly, political instability in the form of *nongmin* protests and civic disobedience, or secondly, in the form of a distorted and malfunctioning domestic market economy. Future economic development and political stability is premised on the ability of the state to leave this development model behind and liberalise mobility *and* residency in urban areas. This suggests

that development models, in this case management of the Lewis transition, can only be temporary features of governance at a particular time of development and under a particular form of government.

The opposite is true for India. Here informal practices manage migration and urbanisation patterns. A corrupt bureaucracy increases the costs of movement and dissuades potential migrants from stimulating the urban economy. Social and cultural practices, especially in rural areas, still intervene in the Lewis transition by dissuading people from migrating outside of their kin networks or relegating migrants to employment based on these networks. The Indian government would do well to set up programmes to encourage and guide rural to urban migration in order to slowly break down these informal practices. Furthermore, as India is very much in the early stages of the Lewis transition policy needs to address the continuing growth of the population. Uncontrolled population growth threatens the ability of economic growth to transfer the majority of the rural underemployed into productive urban employment. Clearly India is developing and urban areas are growing but at the same time India's rural areas continue to grow and population mobility is comparatively low. This is preventing India from making a speedier transition to modern economic arrangements. Efforts need to be made by government to: firstly, lower the birth rate in both rural and urban areas; secondly, to improve the health and education standards of the rural population; thirdly, to improve basic infrastructure, roads, railways and communications to facilitate mobility; fourthly, to encourage rural to urban migration and population movement from one area to another; and finally, this mobility needs to be directed by the state to ensure rural workers can be productively integrated into the urban economy. These policy recommendations can be achieved without severely encroaching upon the fundamental rights of the Indian population.

These issues are important for debates on the process of development in India and China. At the heart of this debate is the larger question of what the relationship between development and governance is. Seemingly, there are no simple answers. What is clear is that authoritarianism is neither necessary nor sufficient for development (Bardhan 2009), thus rejecting the overall

governance model of China. At the same time the argument that democracy is a prerequisite for development is also found to be untrue in this case. Further complicating the debate is the claim that whilst authoritarian countries can develop under un-democratic conditions, these states post-development will be faced with the choice to move towards democracy or face economic and political stagnation or chaos. This paper has added briefly to this debate by highlighting a role for government managing the Lewis transition in the early stages of 'transition' and arguing that such a role is limited in duration, that at some point there must be 'an end to development models'. Moreover, it finds that rather than focusing on the form of government, scholars should shift their focus to the degree of government (as originally suggested by Huntington 1965). The challenge of negotiating the Lewis transition can be met by both democratic and authoritarian governments so long as the developmental model they employ effectively addresses the key challenges of, reducing population growth, creating secondary and tertiary employment and guiding the movement of underemployed rural labourers into urban secondary and tertiary industries, after which time the question of form of government becomes more significant.

## **Conclusion**

The Lewis transition remains an important challenge for developing economies with large 'underemployment' in agriculture. There is a role for government managing this transition and in China this role has been performed through the *hujia* institution but in India there is marked absence of formal governance in this area. Instead, population mobility and urbanisation are managed by informal institutional practices and cultural and social norms. In the early stages of economic development it is *economically* advantageous for the state to play a developmental role by managing population growth and mobility. China has both a far more restrictive model of population growth and mobility and a higher degree of economic development and rate of urbanisation. India has a good level of economic development, steady growth of urban areas but is not transitioning as rapidly due to continued growth in rural areas and a general lack of population mobility. It is suggested that this development

model is however only applicable temporarily for as the Lewisian turning point is approached such a constrictive model can become an impediment to further economic development through distortions in the market or political instability as citizens struggle for equality of civic rights. This then suggests that for China the time has come for further liberalisation of the *huj*i institution and 'an end to development models' but for India increased government intervention in population growth and mobility is required.

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