

## Impact of Urbanization on Economic Growth in China

Topic: CGE and econometric input-output modeling I

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China's urbanization rate reached 52 percent in 2012. According to "World Urbanization Prospects" conducted by United Nations Secretariat, China's urban rate will reach 68.7% in 2030 and China's urban population will grow from 630 million in 2010 to reach 958 million in 2030. In other words, China's urban population will increase by about 300 million in the coming two decades, which is close to USA's total population. Therefore it's important to analyze how the urbanization affects China's economy.

In this paper we investigate the nature of urbanization and economic growth. In theoretical aspect, urbanization is a historical process of a gradual transformation from a traditional rural society mainly relying on agriculture to a modern urban society mainly relying on industry and service, its essence is agglomeration process of population and economic activities in space, which facilitate the mutual use of externality of technology and capital in the economic activities, increase productivity, and build a pool of capital and is benefit for the economic growth.

To evaluate the likely effects of urbanization on the Chinese economy, sectors, and households, this paper utilized a CGE model of the Chinese economy developed by the Development Research Center of the State Council of China (DRC-CGE 2010 Model) to project outcomes of different urbanization scenarios. Two scenarios is designed: BAU and Urbanization scenario. BAU reflect certain common assumptions. These assumptions are based on foreseeable changes, such as inputs to the Chinese economy that can be projected with reasonable confidence. In urbanization scenario, reform on the labor market and social security to reduce barriers to labor, and improving urban infrastructure will accelerate the process of urbanization. Based on the simulation, this paper shows speeding up the process of urbanization will mainly promote economic growth. It is projected that the annual increase of urbanization level by 1 percentage points will upgrade the annual growth of GDP by 0.6~0.7 percentage points. The paper also shows the acceleration of urbanization help narrow the income gap between urban and rural residents and promote development of service sector. According to the simulation results, if there is an increase of 4 percentage points of urbanization level, rural per capita income increased by 20 to 30% and the share of service sector will increase about 1 percentage points.