

China's Industrialization in the Lewis World

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As one of the prominent development theories, including Rosenstein-Rodan (1943), Nurkse (1953), Hirschman, (1958), Chenery (1960), Jorgenson (1961), and Fei and Ranis (1961), Lewis (1954) first proposed the model of dualism that the engine of the growth is the agricultural sector, which also provides the unlimited supplies of (cheap) labor.

In his best known article in 1954, Lewis pointed out the importance of the interaction between agricultural and manufacturing sectors for industrialization, and stressed the importance of agricultural productivity for development. As Fei and Ranis (1961) formally modeled after Lewis, Lewis's dualistic model predicted the wage increase in the modern sector after the turning point for industrialization. This is a crucial assumption in Lewis's world to initiate the take-off.

On the other hand, recent China's rapid economic growth gives an interesting example to be tested for these development ideas. China's industrialization has some outstanding futures. (1) Massive labor migration from rural into urban areas has been taking place (Knight; 1995, Wang and Zuo; 1999, Zhao; 1999, Au and Henderson; 2002). (2) There are no evidences to show the productivity increase in agricultural sector. (3) Income inequality and uneven development across counties have been deteriorated during the industrialization (Benjamin and Brandt; 1999, Gustafsson and Shi; 2002). (4) Industrialization in China has been occurred only in cities along the coast leaving millions of poor peasants behind (Ravallion; 1998, Ravallion and Jalan; 1999). (5) Chinese government policies have been biased toward urban areas (Sachs and Woo; 1997, Yang; 1999, Au and Henderson; 2002, Demurger et al.; 2002).

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In this paper, we investigate the Lewis's hypothesis that the wage rate in urban areas increases after the shortage of cheap labor that migrated from rural or agricultural sector. In so doing, we provide alternatives, closed and open dualistic economies. In open dualism, urban sector's wage rate may not increase because the urban workers can import foods from abroad. In this case, industrialization is limited in only urban sectors and possibly leaves rural areas behind. We also study whether the productivity in agricultural sector has increased, and the effects of urban-biased policies, such as internal passport and system, social securities differentials. We then discuss the implications of these findings for the future of Chinese economy.

Figur: Real Manufacturing Wage

