

# Coordinated development helps reduce spatial disparities

## ECONOMICS

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“Dual circulation” was first officially raised at a meeting by the Standing Committee of the Political Bureau of the Central Committee of the Communist Party of China on May 14, in which the nation was urged to “fully bring out the advantage of its super-large market scale and the potential of domestic demand to establish a new development pattern featuring domestic and international dual circulations that complement each other.” This means we should not only connect factor supply and market demand, but also enhance the coordinated development of Chinese cities. We should strengthen cities’ abilities to attract production factors, and the market’s ability to consume products, to tap the potential of the enormous domestic market across China.

To facilitate the new development pattern, it is highly relevant to properly channel production factors based on the strengths of each city, in order to develop and integrate industries that are most suited for local conditions. Meanwhile, healthy interactions between the factor supply and market demand help cities expand and unblock their production chains.

### Unbalanced development

As urbanization progresses, Chinese cities on the whole still have more room for expansion, and spatial disparities remain. This greatly impedes China from using the benefits of scale economy.

First, the expansion of China’s urban population is not adequate, and cities need to enhance their ability to attract and accommodate more people. According to the World Bank, China’s population density is far behind that of developed countries, even some countries that are at a similar development stage as China, such as Mexico, Brazil, and South Africa.

The rate of the urban population against the total population reached 60.6% in China in 2019, which was respectively 13.1%, 17.48% and 12.51% lower than that of the US, the UK, and France when these countries were at the same level of per capita GDP in history. This indicates that China’s urban scale has not yet reached its optimal stage, and cities need to attract and accommodate more people.

Second, the scale of Chinese cities demonstrates an unbalanced distribution. While most big cities are already experiencing the effects of overcrowding, more people continue to migrate to these high-density locations. According to the *2019 Traffic Analysis Report of China’s Major Cities*, on average, the traffic jam delay index in megacities and



An aerial view of Suzhou Industrial Park in Suzhou, Jiangsu Province, July 31, 2020 Photo: XINHUA

super cities is greater than those in large and medium-sized cities. In 2019, the permanent resident populations saw an increase of over 200,000 or even more in Shenzhen, Guangzhou, Hangzhou, Chengdu, Chongqing and some other first-tier and second-tier cities. With more internal migrants coming, big cities are under considerable strain. This brings huge pressure to the population, resources, environmental carrying capacity, and the improvement of public governance capacity of large cities. In contrast, many small to medium-sized cities continue to suffer from outmigration. In 2019, only one to two cities in Jiangxi, Shanxi, Henan, Hubei, Shaanxi, and Gansu provinces saw a net inflow. The rest of the cities in these provinces experienced a net population outflow.

The two issues above indicate a mismatch in China’s labor supply and demand. In addition, the effects of population agglomeration vary from city to city. However, this also means China has immense potential to facilitate a rational population flow, and reach a more efficient distribution of labor.

### Industrial clusters

A city expands through engaging factors like labor forces and industrial clusters into a spatial interaction and a feedback mechanism. To increase a city’s population through forming industrial clusters, we need to establish measures which suit local conditions. Specifically, we must observe the factor supply and market demand of a city when trying to identify and explore its unique features and potential for forming an industrial cluster. When the industrial cluster is established, the effect of population aggregation will kick in, thus making it possible for the city to expand itself.

Alfred Marshall (1842 – 1924) ’s theory of agglomeration economies explained the benefits that come when firms and people are located near one another together in cities and industrial clusters. Its benefits include: input sharing, labor market

pooling, and knowledge spillovers.

From the perspective of market demand, New Economic Geography analyzed the role of clustering forces in generating an uneven distribution of economic activity and income across space.

To begin with, industrial clusters help reduce the potential risk of fluctuations in the labor market, and are able to stabilize labor supply and demand by better matching workers with jobs. By doing so, we can strengthen a city’s ability to attract labor. Second, industrial clusters are able to better match the product design and manufacturing in cities, and also help diversify products in cities, thus improving residents’ quality of life. Third, industrial clusters are able to engage people in more frequent face-to-face communications, which helps them increase their socializing opportunities and learning opportunities. Laborers are able to exchange knowledge more easily, which helps improve their skills. Last but not least, industrial clusters are also able to increase the variety and quantity of local products. Since consumers who live closer to large markets can access a wider range of products at a lower price, and they are more likely to reduce their living costs and obtain a sense of gain. Consequently, more consumers will start to gather in this city, which eventually will lead to an accumulative circle of increased market demand and an enlarged urban population.

When cities are able to establish industrial clusters based on their own features, different cities will start to create a special development pattern featuring the exchange of needed products, coordination, and cooperation. Meanwhile, agglomeration externalities will gradually expand. By then, cities will be more likely to secure a rational flow, and effective distribution, of labor forces in different industries. As such, workers will find desirable jobs based on their skills and expected salary. Throughout this process, cities will be able to expand in scale while achieving spatial coordination

and interactive development.

### Coordination

We need to identify the problems that will arise as Chinese cities expand. Specifically, we need to find out the strengths of different cities, and create a synergy among them. We can facilitate a sufficient and coordinated expansion of cities by pursuing a coordinated interaction among industrial development, employment absorption, and population aggregation. This will lay a solid foundation for leveraging China’s super-large market and building dual circulations.

First, we need to choose the most suitable mode for industrial clusters in each city according to its own conditions, and promote city expansion in an orderly manner. One of the key reasons behind the insufficient expansion of China’s cities and their unbalanced development, is that some cities developed their industries and industrial clusters in a way that did not suit local conditions. As a result, the industrial clusters’ ability to absorb labor and drive spatial mobility was dampened. Therefore, we need to guide cities to explore their own strengths, and encourage them to use their strengths and leverage local conditions when pursuing the right industries and the right types of industrial clusters. We also need to enhance industries’ ability to develop and generate new jobs.

Second, we need to enhance intercity spatial interactions between factor markets and commodity markets, so as to drive cities’ coordinated expansion. When formulating the development strategy for a city, we need to pick the most suitable industrial development model and industrial cluster model based on each city’s economic development. We also need to take into account the economic status and the industrial structure of its neighboring cities, to determine the city’s position among its neighbors. This will allow us to expand cities in a coordinated way by leveraging the synergistic effect and the economic scale effect.

When designing a strategy for industrial development, large cities should make full use of their advanced service industries and their strengths in research and development innovation. Meanwhile, they should improve their ability to absorb skilled workforces from all fields, and sensibly enlarge their population scale while reducing the effect of crowding. In comparison, small and medium-sized cities should rely on their own factors of production, resources, specialized talent, and the scale economy of manufacturing intermediate products. These cities should pick industrial development strategies based on their own features and comparative advantages. Meanwhile, smaller cities should prevent construction of low-level and redundant projects, optimize their industrial structures, and increase division of labor, so that industrial clusters become population absorbers.

By doing so, large cities can drive comprehensive transformation and upgrades via cultivating and developing strategic emerging industries and a modern service industry. This measure also helps channel populations, factors of production, and industries towards small and medium-sized cities, which will lay the foundation for technical progress and the scaled expansion of these cities. Eventually, different tiers of cities can achieve coordinated expansion by complementing each other’s industrial chains, markets, and functions.

Third, we need to combine market orientation with the government’s guidance, and find a way to improve cities’ abilities to attract and accommodate more migrants. Cities need to avoid unchecked urbanization led by governments. Instead, they should develop their competitive industries under market principles, and let agglomeration economies play their part. Cities should also spare no efforts to generate new jobs, increase the efficiency of job matching, and the size of the labor market.

Fourth, we need to boost domestic demand while maintaining global demand, and rely on both domestic and international markets to fuel urbanization. Cities must strengthen their cooperative ties with their neighbors. It is necessary to engage more cities in the process of domestic market integration, and increase the depth and breadth of domestic market. In addition, we must continue exploring the international market while relying on the domestic market. We need to guide factor mobility and choose comparative industries based on changing demands at home and abroad. We also need to sustain the coordinated and steady expansion of all cities by pursuing interactive development of domestic and international markets.

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