Great Wall or Speed Bump?

Slowing Urban-Rural Migration and China’s Growth

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As China passes its zenith in mass urban-rural migration, concerns have arisen over the sustainability of its current growth model. In particular growth accounting studies suggest that labour reallocation have accounted for between 20-65% of China’s TFP growth. Contrary to this conventional wisdom we show that the literature has overestimated the gains from rural-urban labour reallocation in China, due to: the choice of growth accounting methodology; the neglect of human capital differences between urban and rural sectors, or; both. A more appropriate choice of method and the inclusion of human capital reduce the estimated productivity gains from labour reallocation from, for example, 2.65 percent per annum to just 0.49 percent per annum.

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