

Research Series on the Chinese Dream
and China's Development Path

Peilin Li *Editor*

Urbanization and Its Impact in Contemporary China



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Research Series on the Chinese Dream and China's Development Path

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Peilin Li
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ISSN 2363-6866 ISSN 2363-6874 (electronic)
Research Series on the Chinese Dream and China's Development Path
ISBN 978-981-13-2341-6 ISBN 978-981-13-2342-3 (eBook)
<https://doi.org/10.1007/978-981-13-2342-3>

Jointly published with Social Sciences Academic Press, Beijing, China
The printed edition is not for sale in the Mainland of China. Customers from the Mainland of China please order the print book from Social Sciences Academic Press.

Library of Congress Control Number: 2018952872

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Series Preface

Since China's reform and opening began in 1978, the country has come a long way on the path of Socialism with Chinese Characteristics, under the leadership of the Communist Party of China. Over 30 years of reform efforts and sustained spectacular economic growth have turned China into the world's second largest economy, and wrought many profound changes in the Chinese society. These historically significant developments have been garnering increasing attention from scholars, governments, and the general public alike around the world since the 1990s, when the newest wave of China studies began to gather steam. Some of the hottest topics have included the so-called "China miracle", "Chinese phenomenon", "Chinese experience", "Chinese path", and the "Chinese model". Homegrown researchers have soon followed suit. Already hugely productive, this vibrant field is putting out a large number of books each year, with Social Sciences Academic Press alone having published hundreds of titles on a wide range of subjects.

Because most of these books have been written and published in Chinese, however, readership has been limited outside China—even among many who study China—for whom English is still the lingua franca. This language barrier has been an impediment to efforts by academia, business communities, and policy-makers in other countries to form a thorough understanding of contemporary China, of what is distinct about China's past and present may mean not only for her future but also for the future of the world. The need to remove such an impediment is both real and urgent, and the *Research Series on the Chinese Dream and China's Development Path* is my answer to the call.

This series features some of the most notable achievements from the last 20 years by scholars in China in a variety of research topics related to reform and opening. They include both theoretical explorations and empirical studies, and cover economy, society, politics, law, culture, and ecology, the six areas in which reform and opening policies have had the deepest impact and farthest-reaching consequences for the country. Authors for the series have also tried to articulate their visions of the "Chinese Dream" and how the country can realize it in these fields and beyond.

All of the editors and authors for the *Research Series on the Chinese Dream and China's Development Path* are both longtime students of reform and opening and recognized authorities in their respective academic fields. Their credentials and expertise lend credibility to these books, each of which having been subject to a rigorous peer review process for inclusion in the series. As part of the Reform and Development Program under the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China, the series is published by Springer, a Germany-based academic publisher of international repute, and distributed overseas. I am confident that it will help fill a lacuna in studies of China in the era of reform and opening.

Xie Shouguang

Acknowledgements

After a relatively short gestation period, the *Research Series on the Chinese Dream and China's Development Path* has started to bear fruits. We have, first and foremost, the books' authors and editors to thank for making this possible. And it was the hard work by many people at Social Sciences Academic Press and Springer, the two collaborating publishers, that made it a reality. We are deeply grateful to all of them.

Mr. Xie Shouguang, president of Social Sciences Academic Press (SSAP), is the mastermind behind the project. In addition to defining the key missions to be accomplished by it and setting down the basic parameters for the project's execution, as the work has unfolded, Mr. Xie has provided critical input pertaining to its every aspect and at every step of the way. Thanks to the deft coordination by Ms. Li Yanling, all the constantly moving parts of the project, especially those on the SSAP side, are securely held together, and as well synchronized as is feasible for a project of this scale. Ms. Gao Jing, unfailingly diligent and meticulous, makes sure every aspect of each Chinese manuscript meets the highest standards for both publishers, something of critical importance to all subsequent steps in the publishing process. That high-quality if also at times stylistically as well as technically challenging scholarly writing in Chinese has turned into decent, readable English that readers see on these pages is largely thanks to Ms. Liang Fan, who oversees translator recruitment and translation quality control.

Ten other members of the SSAP staff have been intimately involved, primarily in the capacity of in-house editor, in the preparation of the Chinese manuscripts. It is time-consuming work that requires attention to details, and each of them has done this, and is continuing to do this with superb skills. They are, in alphabetical order: Mr. Cai Jihui, Ms. Liu Xiaojun, Mr. Ren Wenwu, Ms. Shi Xiaolin, Ms. Song Yuehua, Mr. Tong Genxing, Ms. Wu Dan, Ms. Yao Dongmei, Ms. Yun Wei, and Ms. Zhou Qiong. In addition, Xie Shouguang and Li Yanling have also taken part in this work.

Mr. Tong Genxing is the SSAP in-house editor for the current volume.

Our appreciation is also owed to Ms. Li Yan, Mr. Chai Ning, Ms. Wang Lei, and Ms. Xu Yi from Springer's Beijing Representative Office. Their strong support for the SSAP team in various aspects of the project helped to make the latter's work that much easier than it would have otherwise been.

We thank Mr. Sun Feng for translating this book and Mr. Darcy Littler and Ms. Chang Jie for their work as the polisher. The translation and draft polish process benefited greatly from the consistent and professional coordination service by Beijing Moze International Culture Development Co., Ltd. We thank everyone involved for their hard work.

Last, but certainly not least, it must be mentioned that funding for this project comes from the Ministry of Finance of the People's Republic of China. Our profound gratitude, if we can be forgiven for a bit of apophrisis, goes without saying.

Social Sciences Academic Press
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Chapter 1

Urbanization and the New Phase of Growth in China



Peilin Li

China has already stepped beyond the initial stage of development and entered a new stage of growth. In this new stage, the characteristics of Chinese development as well as the problems and challenges to be addressed have changed profoundly. Such issues as increasing labor costs, decreasing return on investments, export challenges, evolving labor supply and demand dynamics, accelerated population aging, growing natural resources scarcity and environmental degradation, weak domestic consumption, and so forth, have presented obstacles to the sustainable development of society and economy. At the same time, great changes have taken place in terms of the international environment as well as opportunities and driving forces for development. In the face of this new situation and these new changes, many have expressed concerns as to whether China would fall into the “middle-income trap”¹ the way other coun-

¹ The concept of “middle-income trap” first appeared in the *East Asia Economic Development Report* issued by the World Bank in 2006. It refers to the dilemma a country faces after jumping from a stage of lower income to a stage of middle income (implying a per capita GDP of \$3000–\$10,000). On the one hand, as wages rise, labor prices lose their comparative advantage; on the other hand, technical upgrades are slow and subpar in comparison with developed countries. This kind of situation creates a “trap effect”, whereas the original growth mechanism prevents further economic growth. It is difficult for per capita GDP to break through the \$10,000 ceiling and thus very easy for these countries to be trapped in a lingering period of economic stagnation.

The Chinese expressions “城市化”, “都市化” and “城镇化” are all equivalent to the English word “urbanization”. In Japan, as well as in the regions of Taiwan and Hong Kong, the expression “都市化” is commonly used. In China official state-issued documents are presently consistent in their use of the expression “城镇化”. However, in the Chinese academic filed, published articles mostly employ the expression “城市化”. In fact, “城市化” and “城镇化” are basically synonyms. The reason why the government uses the expression “城镇化” consistently is to stress the coordinated development of large cities, medium size cities and small cities as well as towns.

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tries with similar growth experiences have. If the answer is negative, where should it turn for new breakthroughs and new leap forwards?

In terms of new opportunities and driving forces for development, urbanization is perhaps the greatest. After industrialization, urbanization will become the new engine for China's development. National development will enter a stage of new growth driven by the two engines that are industrialization and urbanization.

The international scientific community has also highly focused on the great urbanization of China. Nobel economics laureate Joseph Stiglitz considered that, in the 21st century, China would meet with three great challenges, of which urbanization would be the most critical because domestic demand cannot be driven up without urbanization growth (Zhao and Zhou 2002). The *World Development Report* published by the World Bank in 2003 pointed out that "a dynamic city is the engine of growth."

1.1 From the Initial Stage to a New Growth

The "reform and opening up" era gradually introduced China to the initial stage of its economic development. The basic features of this stage were essentially the same as those of any country's economic modernization process: first, a large agricultural labor force was transferred to manufacture; second, foreign investments clearly increased; third, a regional growth pole appeared; fourth, the comparative advantages of agriculture became those of labor-intensive industries. Academics disagree when it comes to the issue of when this initial stage is going to be completed or when China will become ready for the next stage. However, so far as urbanization is concerned, it has become a new driver of growth. Let us look at the key features of this new stage:

1.1.1 Urbanization as the Post-industrialization Engine of National Development

Industrialization, urbanization and marketization have become the "three carriages" driving great changes in Chinese society. In the process of rapid urbanization, the intensive use and rapid appreciation of land prices have become important sources of economic growth and financial income. On the one hand, the rapid growth of a mass consumer demand for improved housing matches the need for transforming economic development patterns and increasing domestic consumption; on the other hand, the emerging benefit game revolving around property income also affects the development of industries, the stability of the cost of living as well as the fair and reasonable distribution of profits. How to deal with this dilemma under the new normal has become the way to continuously promote the healthy growth of economy and society. The year 2011 was a milestone year for urbanization growth in China due to the fact that, for the first time, its urban population accounted for over half of its

total population, reaching 51.3%.² Originally a great agricultural civilization several thousand years old, China entered a new growth stage predominated by its urban society. This is not just a simple augmentation of the urban population percentage; it implies extremely profound changes in modes of production, occupational structures, consumer behaviors, lifestyles and values.

1.1.2 Gradual Progression of Urbanization: One Region at a Time

In recent years, the Chinese middle and west areas have been leading national economic growth. This has balanced the regional structure of economic growth. In terms of industrial added-value in the first three quarters of 2011, year-on-year growth in the eastern China reached 12.2%, whereas it reached 18.3% in the central region and 17.1% in the western region. In terms of fixed asset investment, year-on-year growth in the eastern China reached 22.3%, compared to 29.9% in the central region and 29.5% in the western region.

Economic growth rate has been higher in central and western China than in eastern China for seven consecutive years. Changes in the regional development pattern are the natural result of industry transfer, as well as the result of the role that China played in regional development policymaking. Nevertheless, recent rapid development of the central and western China is not the outcome of a repetition of the eastern China's developmental approach, but that of the enormous thrust of urbanization that occurred after industrialization.

1.1.3 Notable Slowing-Down of the Widening Urban-Rural Gap

With the increase of Chinese transfer payments in rural areas and the implementation of a series of preferential agricultural policies (particularly price increases for agricultural products), the living standards of rural residents have improved significantly. The rate at which the net per capita income of rural residents increased in 2011 was continuously faster than that at which the disposable income of urban residents did.

This change is not an accidental phenomenon, but the beginning of a long-term trend. In the wake of the increase of the price of agricultural products and secondary segment wages, the farming income and work income of rural citizens will become the two forces promoting the rapid increase of cash income for rural citizens. The proportion of cash income against net income will also continue to increase.

Of course, since the absolute urban-rural income gap is relatively wide and will likely stay that way for some time, policies to help and benefit rural citizens still need to be further strengthened.

²Data in this article are sourced from the *China Statistical Yearbook* published by the National Bureau of Statistics unless otherwise noted.

1.1.4 Eradicating the Dualistic Structure and Realizing Urban-Rural Integration

Realizing urban-rural integration and eradicating the existing structural divide between urban and rural areas will become the focus of national development. The continuous push for urbanization will involve the holistic reform of social systems such as household registration, employment, social security, income distribution, education, healthcare and social administration. With the swift development of rapid transit, China's urbanization has entered its second stage. From rural citizens moving in cities for employment, to the creation of a "one-hour living circle", a new type of urban-rural relationship is being established. All Chinese rural citizens now have access to social security; roughly 200 million people are now participating in the new rural pension system.

1.2 Developmental Stages, Characteristics and Functions of China's Urbanization

1.2.1 China's New Growth Phase and Its Predominantly Urban Population

China is a large country with an ancient agricultural civilization. Its industrialization process was slow, spanning over most of the country's modern history. In 1949, China was still a typical agricultural country, with an urbanization rate of 10.65%, with rural citizens accounting for 90% of the population. In the 1950s, after the founding of the People's Republic of China, the country went through a period of rapid urbanization. At the beginning of the 1960s, urbanization rate reached 17%. As a result of the policies of the Great Leap Forward, waves of natural disasters in the early 1960s, and large number of young people being sent to the countryside during the Cultural Revolution, the urbanization process stagnated for a long time. From 1962 to 1978, urbanization rate grew little if at all, hovering around 17%. In comparison, the world average was 42.2% in 1980; that of developed countries for the same year was 70.2%.

After 1978, the urbanization process gathered steam and reached historic speed. The average urbanization rate rose from 17 to 36% with an annual growth rate of 1.2% from 1978 to 2000. In the 21st century, the China's urbanization process further accelerated. From 2000 to 2010, the urbanization rate rose from 36 to 49.7% with an annual growth rate of 1.37%; the urban population increased from 459 million to 665 million with an annual increase rate of 23 million people (see Fig. 1.1). This was the only urbanization process of such magnitude in the world. The year 2011 was a milestone year in China's urbanization process as over half of its total population was then urban, accounting for 51.3% of the total. When the United States initiated

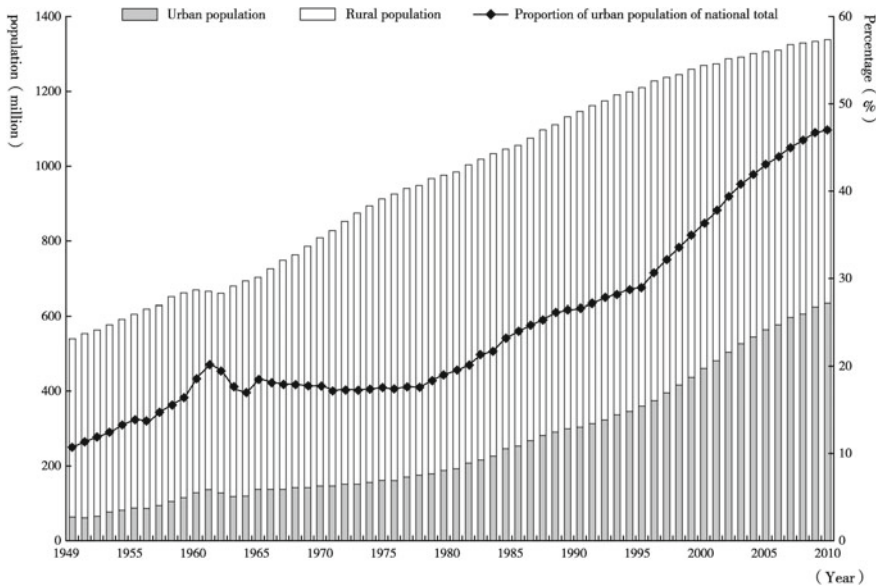


Fig. 1.1 Urbanization rates in China, 1949–2010

their industrial revolution in 1870, its urban population accounted for less than 20% of its total population; in 50 years, the proportion rose rapidly, reaching 51.4% by the year 1920. In comparison, it took only 33 years for China, a populous country with a large rural population and an agricultural civilization that goes back millennia, to embark on a new stage of growth characterized by the predominance of cities.

1.2.2 The Urbanization Process Enters Its Middle Stage

In China, the post-1978 urbanization process can generally be divided into three stages. The first stage lasted from 1978 to 1985 and was characterized by the diminishing importance of agriculture in the national economy. Along with the widespread implementation of the household contract responsibility system, rural economies developed rapidly, small towns were rejuvenated, and rural enterprises sprung up. The rural population gathered in small towns and cities, and rural citizens began to take on work outside agriculture in large numbers. In 1985, the renowned sociologist Fei Xiaotong published an article entitled *Small Town, Big Problem*, which drew serious attention from members of Party’s Central Committee. The article had considerable social repercussions. At that time, the path to urbanization with Chinese characteristics consisted in a development strategy y that centered on small towns.

The second stage lasted from 1986 to 2000 and was characterized by the massive influx of rural residents into cities. After the mid-1980s, the number of rural citizens

who had become migrant workers “giving up farm work and leaving their hometown” in order to find work in cities exceeded that of those who had given up farm work but remained in the countryside to work in rural enterprises; the former group became the main channel for the transfer of rural labor. Starting in the late 1990s, a large number of state-owned enterprises underwent reform, injecting new life in urban economies and concentrated various development opportunities in cities, resulting in over a hundred million rural migrant workers going to cities for employment.

The third stage of urbanization lasted from 2001 until today and was mainly characterized by rapid urban expansion and the emergence of city clusters. Since the beginning of the 21st century, the benefits of the urban housing system reform manifested gradually, and as a result of that, cars and houses turned into common consumer goods for families, the real estate industry rapidly sprung up, the appreciation of the land was speeded up, urban areas coalesced with former suburban areas, the fast construction of infrastructures such as highways and high speed rails enlarged the “one-hour living circle” and resulted in the constant emergence of city clusters connected by other “one-hour city circles”.

Every country’s urbanization process includes the congregation of the rural population in cities, as well as phases of suburbanization, de-urbanization³ and re-urbanization.⁴ As matter of the fact, China is currently undergoing a “suburbanization” phase. In this phase, on the one hand a large quantity of rural residents is congregating to cities and gathering in suburban villages due to the high living costs of urban centers, while on the other hand a part of the upper-middle class population is moving to the suburbs and the outskirts of cities due to the deterioration of the living environment in urban centers (traffic jams, air pollution, high housing prices and high rents, clamor and noise, etc.).

Higher urbanization rates are not necessarily better. Urbanization rates in developed countries normally range between 75 and 80%, yet the proportion of their rural population is only 1–4%, usually lower than 5%. That is to say, after the completion of the counter-urbanization process in developed countries, there are usually about

³Since the 1970s, the term “counter-urbanization” has been used to refer to the phenomenon, in reverse of urbanization, of a floating population appearing along with the development of faster and more convenient inter-city traffic consisting of the former residents of large urban centers and suburbs in developed countries which moved to remote rural areas and small towns. Counter-urbanization is also often referred to as the “hollowing-out of urban centers”, which corresponds to the “hollowing-out of the countryside” observed during “initial urbanization”. “Suburbanization” and “counter-urbanization” can be understood respectively as “intermediate state of urbanization” and “late-stage urbanization” during which urbanization rates can reach 50–80%. “Counter-urbanization” actually is the integration of urban and rural areas, whereas many rural residents no longer engage in farm work and living facilities are diversified to include shops, bars, post offices, schools, clinics, banking facilities and the like, allowing for the new prosperity of rural areas.

⁴What is called “re-urbanization” is actually a new stage of “post-urbanization”. In this stage, more job opportunities are created in old cities via the adjustment of the industrial structure as well as the development of high-tech industries and new types of tertiary industries. A large number of young professionals are lured back to the city thanks to improvements urban environment, the alleviation of traffic problems, rich urban culture, and, in particular, the ability of urban centers to gather information and creative opportunities. We call this process “re-urbanization”. It is in reality the process of upgrading and renewing urban industries, urban functions and urban life.

20% non-rural population residing and living in the countryside. With the integration of urban and rural centers allowing for the perfection of the living facilities (such as transportation, water, electricity and communication) in rural areas, to which can be added the fresh air and natural sceneries of the countryside, more urban dwellers suffering from air and noise pollution feel the incentive to settle down in villages and small towns. The urbanization rate of the United States is around 80%, and its rural laborers only account for 2% for its whole labor force; and yet, its rural population, according to the rural census statistics, accounts for approximately 20% of its total population. Similarly, Germany is a highly industrialized country, yet its population in the countryside accounts approximately for 40% of its total population. On the contrary, some South American countries, such as Brazil, Argentina and Mexico, show urbanization rates over 80%, leading to such phenomena as extreme urban-rural gaps, greater disparity between the rich and the poor, and the appearance of large-scale urban slums. Therefore, the width of the urban-rural gap and the integration level of urban-rural areas should be the indicators used to label stages of urbanization and development, as they are more important than urbanization rates.

1.2.3 Constant Breakthroughs in the Expected Economic Benefits of Urban Agglomeration

The basic characteristic of urbanization is the congregation of large numbers of people in cities. However large urban populations are not always beneficial. As cities face limits in terms of land, drinking water, housing, transportation, garbage disposal and environment protection, the issue of carrying capacity inevitably arises. Many scholars and institutes in the world have done analyses and created models to for estimating the carrying capacity of different cities. In his 1973 book *Small is Beautiful* the renowned economist E. F. Schumacher put the maximum number of residents consistent with a city's carrying capacity at 500,000 people (Schumacher 1984). However, as international megalopolises sprang up like mushrooms after a rain, the concept of adequate carrying capacity was continuously updated. In practice, agglomeration economies were standing out more and more, constantly surpassing expectations and causing people to think that when it comes to cities, bigger is better.

From 1990 to 2010, the number of Chinese megalopolises with a population of over three million in their municipal regions increased from 6 to 20 (see Table 1.1). The economic benefits of agglomeration economies in urban areas of all sizes have been obviously improved, but such improvement is most evident in the case of megalopolises (see Table 1.2). In 2010, the benefits of agglomeration economies for the average population (per capita GDP) of Chinese megalopolises with a population of over 3 million in their municipal regions reached 62,775.6 yuan, far above those of metropolises or medium-sized and small cities; the benefits of agglomeration economies for the average land of these megalopolises reached 133.411 million yuan per square kilometer, which is also far above that of metropolises or medium-

Table 1.1 Number of cities of different scales in China (1990, 2000, 2010)

City type by scale	1990	2000	2010
Megalopolises	6	9	20
Metropolises	65	80	110
Medium-sized cities	79	103	114
Small cities	90	69	46

Note The cities covered in this table include those at the district level and above in China. Megalopolises have a permanent resident population of 3 million or above in their municipal regions; metropolises have a permanent resident population of 1–3 million in their municipal regions; medium-sized cities have a permanent resident population of 0.5–1 million in their municipal regions; and small cities have a permanent resident population of below 0.5 million in their municipal regions

Data source Calculated on the basis of related data from *China City Statistical Yearbook 2011* edited by the National Bureau of Statistics in 2011 and published by the China Statistics Press

Table 1.2 Change in economic returns on agglomeration economies in China (1990, 2000, 2010) (Unit RMB)

City type by size	1990	2000	2010
Megalopolises	5295.7	23,045.3	62,775.6
Metropolises	2715.0	16,572.5	45,242.4
Medium-sized cities	2977.2	12,390.5	40,032.7
Small cities	2898.7	13,253.3	39,985.9

Note The urban population in this table area the district level or above

Data source Calculated on the basis of related data from *China City Statistical Yearbook 2011* edited by the National Bureau of Statistics in 2011 and published by the China Statistics Press

sized and small cities (see Table 1.3). Average land benefits and average population benefits all showed a tendency to decrease with the size of the city.

1.2.4 Cities as the Main Consumer Markets

An important consequence of urbanization is the transformation of people's lifestyles and consumption patterns. It is a transition from traditional country life to urban life, from material consumption to monetary consumption, and from consumption based on income and savings to credit consumption. Urbanization also changes consumption structures and consumer psychology, involving the constant increase of new consumer goods in the fields of education, healthcare, communication, fitness, beauty, tourism, sports, culture, entertainment and leisure, and the like. Large consumer transactions such as the purchase of a car or real estate has become common expenses for millions of households and urban fashion is now the bellwether leading general consumer behavior.

Table 1.3 Population and land benefits of agglomeration economies in different Chinese cities (2010)

Urban scale	Number of cities	Average population (10,000 people)	Average area (km ²)	Population benefits (per capita GDP) (RMB)	Land benefits (10,000 RMB/km ²)
Megalopolises	20	608.3	5153.0	62,775.6	13,341.1
Metropolises	110	159.4	2233.5	45,242.4	6113.1
Medium-sized cities	114	71.0	1702.6	40,032.7	3675.1
Small cities	46	36.0	2017.3	39,985.9	1676.4

Note The table covers cities at the district level and above. Megalopolises have a permanent resident population of three million or above in their municipal regions; metropolises have a permanent resident population of one to three million in their municipal regions; medium-sized cities have a permanent resident population of 0.5–1 million in their municipal regions; and small cities have a permanent resident population of below 0.5 million in their municipal regions

Data source Calculated on the basis of related data from *China City Statistical Yearbook 2011* edited by the National Bureau of Statistics in 2011 and published by the China Statistical Publishing Press

After the “reform and opening up” era, the old idea according to which “production is first; life is second” saw itself change, but the concept of “heavy investments and light consumption” promoting economic growth remained deeply entrenched. Urban and rural consumption growth has long lagged far behind economic growth. Income is the basis for consumption. From 1991 to 2009, the per capita disposable income of Chinese urban residents rose by a yearly average of 8.3% and the per capita net income of Chinese rural residents rose by a yearly average of 5.5%; both statistics are lower than the average annual GDP growth (10.4%) for the same period, respectively by 2.1 and 4.9 percentage points, and lower than the average annual state financial income growth (18%) for the same period, respectively by 9.7 and 12.5 percentage points. With the recent changes in development, urban and rural consumption in China has increased rapidly, creating a situation where urban and rural consumption grows faster than GDP. In 2010, the actual growth of the per capita income of Chinese urban and rural residents was respectively 7.8% and 10.9% over the previous year. It was the first time since 1998 that the actual growth of the net income of rural residents exceeded that of urban residents. In 2011, the actual growth of the net income of rural residents reached 11.4%, the highest since 1985, growing faster than that of urban residents for two consecutive years.

Urbanization helps boost household spending in China. In 2010, per capita urban household consumer spending reached 13,471 yuan, whereas per capita rural household consumer spending reached 4381 yuan; in other words, consumer spending was approximately three times as much in urban as in rural areas. Wage is the major source of income for both urban and rural households, although there is a great disparity between the structures of urban and rural income. In 2010, salary accounted for 65.2% of the total income of urban households, and 41.1% of the total income of rural households. “Farming income” accounted for nearly 50% of rural household