

# The Reform Logic and Practical Path of the Two-way Flow of Urban and Rural Elements in China

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**Abstract:** The Third Plenary Session of the 20th Central Committee of the Communist Party of China (CPC) emphasized "promoting the equal exchange and two-way flow of urban and rural elements, narrowing the gap between urban and rural areas, and promoting the common prosperity and development of urban and rural areas". To realize the equal exchange and two-way flow of urban and rural factors, it is necessary to follow the laws of the market economy, establish a market-oriented factor price formation mechanism, smooth the channels for the flow of urban and rural factors, promote the independent and orderly flow of factors between urban and rural areas, ensure that farmers obtain equal rights and interests in the exchange of labour, land, capital and other factors, and build a new pattern of two-way and reasonable flow of urban and rural factors. However, the long-standing dual structure of urban and rural areas in China restricts the two-way flow of urban and rural elements. At present and in the future, it is a critical period to comprehensively promote the construction of a strong country and the great cause of national rejuvenation with Chinese-style modernization, and it is urgent to reverse the situation of poor flow of urban and rural factors and break down the institutional obstacles to the two-way flow of urban and rural factors.

## 1. The Basic Logic of the Two-way Flow of Urban and Rural Elements

Elements can be divided into six categories: land, labour, capital, technology, data, and natural resources. Among them, land, labour, and capital are the traditional factors of production defined in classical economics. With the continuous improvement of the intellectual property system, the rapid development of the digital economy, and the integration of ecological civilization into the overall layout of the "five-in-one", technology, data and natural resources have become new factors of production and entered the production process [1]. From the perspective of factor endowment, there is a natural complementary relationship between urban and rural areas. Rural areas have factor advantages in labour, land and natural resources, and mainly carry the production activities of the agricultural sector. Cities have factor advantages in terms of capital, technology and data, and mainly carry the production activities of non-agricultural sectors such as industry. Therefore, the two-way flow of urban and rural elements is an inherent requirement for realizing urban-rural complementarity, urban-rural economic cycle and urban-rural integrated development. The reform process of two-way flow of urban and rural elements should follow the starting point and end point of promoting social fairness and justice and improving people's well-being. The basic principle of the two-way flow of urban and rural elements lies in the law of market economy. In the market economy system, the flow of factors is determined by the market supply and demand relationship and the price mechanism, so deepening the reform of the market economy system is the premise of the two-way flow of factors. By giving full play to the decisive role of the market and allocating factors to the most efficient places, the maximum value of factors can be realized. China's long-standing dual urban-rural structure and urban-rural dual institutional mechanism have led to the segmentation of the urban-rural factor market, and the long-term one-way flow of labour, capital, natural resources and other factors from rural to urban areas [2]. At present, China has entered a

window period to improve the system and mechanism of urban-rural integrated development, and there is still a lot of room for optimization in the one-way flow of some urban and rural elements, so we can adhere to the basic direction of the integration of urban and rural factor markets, improve the reform of the property rights system, and break down the institutional and institutional obstacles of urban-rural separation, so as to realize the one-way flow of urban and rural elements to the two-way reasonable and orderly flow.

## **2. The Two-way Flow of Urban and Rural Population is An Important Foundation for the Integrated Development of Urban and Rural Areas**

### **2.1. The Migration of Rural Labour to Cities and High-quality Employment are the Basic Driving Forces for the Continuous Transformation and Upgrading of Industrialization**

The process of urban-rural integration development is, to a certain extent, the process of "promoting agriculture with industry", and the speed and quality of industrial development will play an important role in it. In the early stage of economic development, due to the unlimited supply of surplus labour in the countryside, workers' wages would not rise with the expansion of the industrial sector, thus creating good conditions for the rapid advancement of industrialization. After the reform and opening up, the rapid advancement of China's industrialization is largely due to this demographic dividend. With the advancement of the transfer of surplus labour in rural areas, the increase in wage costs will continue to force the transformation and upgrading of the industrial structure. The transfer of labour from rural China is in the form of migrant workers moving to the cities. The vast number of peasant workers are not only inferior to those with urban hukou in terms of wages and social welfare, but also suffer from poor working conditions and long working hours, and the overall quality of employment is low. This situation not only greatly reduces the labour cost of enterprises, but also affects the improvement of the human capital of migrant workers. Although the large number of migrant workers moving into the cities has improved the international competitiveness of China's manufacturing industry, especially labour-intensive industries, it has also led to a vicious circle of low-end industrial industry and low-end human capital, and restricted the transformation and upgrading of the economic structure. Therefore, promoting the integration of urban labour force into cities and achieving high-quality employment will become an important driving factor for China's industrialization transformation and upgrading.

### **2.2. The High-quality Integration of Urban Population into the City is An Important Foundation for Promoting the Transformation of Urbanization from Extension to Connotative and In-depth Development**

The quality of urbanization will inevitably affect the quality of urban-rural integration development, and population flow is an important influencing factor. The amount of migration to cities affects the rate of urbanization. The quality of population flow to the city, that is, whether the population moving to the city is citizenized so that they can work and live in the city stably, affects the quality of urbanization. China's rapid population movement after the reform and opening up has promoted the continuous and rapid development of urbanization, with the level of population urbanization rising from 17.9% in 1978 to 66.2% in 2023. However, due to the constraints of the dual system of urban and rural areas, a large number of peasants who have moved to the cities cannot integrate into the cities, and the overall quality of urbanization is not high. According to statistics, the total number of migrant workers in the country will reach 298 million in 2023. However, by the end of 2023, the urbanization rate of the national registered population was only 48.3%, which was 17.9 percentage points lower than the urbanization rate of the permanent population. The needs of migrant workers are not fully considered in urban planning and construction, resulting in a low proportion of land for urban living, commerce and public facilities, and a serious shortage of land for roads, squares, greening, and sports, resulting in many "urban diseases". Therefore, promoting the urbanization of urban farmers and promoting the transformation of urbanization from extension to in-depth development should become one of the focuses of urban-

rural integration development in the next stage.

### **2.3. The Two-way Flow and Integration of Urban and Rural Population is the only Way to Realize the Modernization of Agriculture and Rural Areas**

The unbalanced and inadequate development of urban and rural areas is a prominent manifestation of the main contradictions in China's current society, and the modernization of agriculture and rural areas is still a shortcoming of the integrated development of urban and rural areas. Therefore, whether the modernization of agriculture and rural areas can be coordinated with industrialization and urbanization is the key to realizing the integrated development of urban and rural areas. The two-way flow and integration of urban and rural population is the only way to promote the modernization of China's agriculture and rural areas. The migration of rural population to cities and integration into cities can effectively reduce the rural population and improve the relationship between rural people and land, thereby promoting the circulation and large-scale operation of agricultural land, and creating conditions for the modernization of agriculture and rural areas. However, the continuous migration of rural population to urban areas may also have a negative effect on agricultural and rural modernization. Due to the existence of the dual system of urban and rural areas, after the arrival of the Lewis inflection point, the unified labour market between urban and rural areas has not been formed, and the flow of Chinese population and labour force has long been manifested as a one-way flow from rural to urban areas, resulting in a serious shortage of rural talents. In 2005, after the Fifth Plenary Session of the 16th Central Committee of the Communist Party of China proposed to steadily promote the construction of new countryside and establish a long-term mechanism of promoting agriculture with industry and leading rural areas with cities, governments at all levels gradually attached importance to the work of talents entering the countryside, and achieved certain results, and from 2012 to 2022, the total number of entrepreneurs returning to their hometowns reached 12.2 million. However, at present, China's population flow is still dominated by one-way flow from rural to urban areas, and the flow from urban to rural areas has just started, and it is far from meeting the needs of rural revitalization and urban-rural integrated development. There is still a large gap between urban and rural public services and infrastructure construction. Therefore, it is an urgent task to promote the two-way flow and integration of urban and rural population through institutional and mechanism innovation.

## **3. The Practical Challenge of the Two-way Flow of Urban and Rural Elements**

### **3.1. Labour Factors**

Labour force is the most active and dynamic factor of production, and its significant feature is that it is attached to the individual labourer, so the flow of labour factor also involves the issue of public service guarantee such as medical care, pension, education, and housing. On the one hand, the process of urbanization of the rural migrant population is still lagging behind. At the end of 2023, the urbanization rate of China's permanent population reached 66.2%, but the urbanization rate of the registered population was less than 50%, which means that nearly 180 million rural migrants are counted as urban permanent residents but do not enjoy the same treatment as the urban registered population and cannot integrate into the city. On the other hand, there is a shortage of high-quality labour in the countryside. At present, 33.8% of China's population still lives in rural areas, and in order to achieve farmers' income increase and common prosperity, high-quality labour force is needed to provide talent support for rural development of new business forms and new driving forces. However, the lack of jobs in rural areas and the weak capacity of public services have not attracted enough high-quality labour. To promote the two-way flow of urban and rural labour elements, it is necessary to focus on speeding up the urbanization of the rural transfer population and enhancing the attractiveness of rural areas to talents. Regions with the capacity may pilot the equalization of basic public services for the permanent population, and establish and improve guarantee mechanisms such as fiscal transfer payments, housing supply, and education for the children of migrants commensurate with the size of the permanent resident population;

Implement the talent support plan for rural revitalization, and improve the incentive mechanism for urban professional and technical personnel to regularly serve rural areas. For example, in 2023, Zhejiang Province issued the Implementation Plan for Promoting the Implementation of the System of Providing Basic Public Services in Permanent Residence and Orderly Promoting the Urbanization of the Rural Migrant Population (2023-2027), proposing to improve the mechanism for providing basic urban public services with residence permits as the carrier, strengthen the public service guarantee for the rural migrant population, and help stabilize the supply of labour factors. At the end of 2021, the Jiangxi Provincial Department of Human Resources and Social Security issued the "Several Measures on Encouraging and Supporting Professional and Technical and Skilled Talents to Serve Rural Revitalization", which proposes that those who are stationed in villages to help cadres and have achieved remarkable results during their residency in the village should increase support for their professional title evaluation and guide professionals to actively participate in the cause of rural revitalization.

### **3.2. Land Elements**

Therefore, the flow of urban and rural land elements is essentially the change of land ownership or use in the urban and rural regional system, which is closely related to the reform of the rural land system. On the one hand, there is a general shortage of urban construction land indicators. On the other hand, there are still many problems in the market of rural homesteads and the entry into the market of collective management construction land, such as the lack of clarity of the subject of collective land ownership, the imperfect benefit distribution mechanism, and the imperfect guarantee and control system after entering the market. The focus of promoting the two-way flow of urban and rural land elements in China is to deepen the reform of the rural land system. China should actively explore and promote the effective realization of the "three rights" of homestead ownership, qualification right and use right, and give the legal status of the usufructuary right of homestead use.

### **3.3. Capital Element**

The typical characteristics of the capital factor are profit-seeking and speculative. Although China's rural finance has made great progress and the government has introduced a number of policies to support capital in rural areas, there are still challenges in achieving two-way flow of capital elements between urban and rural areas [3]. First, the rate of return on capital investment in rural areas is generally lower than that in urban areas, and there is a lack of motivation for capital to flow to rural areas. Second, although some policies are aimed at supporting rural development, they do not promote the effective use of capital factors in practice. For example, in the case of serious "hollowing-out", some villages still emphasize infrastructure construction, resulting in inefficient use of capital factors. Third, the current credit supply structure of the rural financial system has not fully met the requirements of the rural revitalization strategy, and smallholder farmers and new agricultural operators are still facing greater financial credit constraints. At the end of 2023, the balance of inclusive small and micro loans was 29.4 trillion yuan, a year-on-year increase of 23.5%, while the balance of loans for rural production and operation was 9.24 trillion yuan, a year-on-year increase of 18%.

### **3.4. New Factors of Production**

In the new stage of development, the contribution of three new production factors, namely technology, data and natural resources, to the integrated development of urban and rural areas is prominent. Technological elements need the support and protection of intellectual property rights to play an innovative role, data elements have the characteristics of non-exclusivity, wide flow range and low sharing cost, and natural resource elements have the attributes of natural public goods. These characteristics determine that the flow of the three types of elements depends on the perfection of the property rights system. However, there are varying degrees of unclear property rights in the current market for technology, data and natural resource elements. Data elements are usually combined with other factors of production to maximize their efficiency, but the definition of

data property rights involves multiple subjects, and the inconsistent interests of each subject make it difficult to define data property rights. As of the end of December 2023, the internet penetration rate in urban areas was 83.3% and that in rural areas was 66.5%, a difference of 16.8 percentage points.

#### **4. Improve the System and Mechanism for the Two-way Flow of Urban and Rural Elements**

With the continuous advancement of China's factor market-oriented reform, the urban and rural factor markets are gradually transitioning to an integrated and interactive situation, but there is still a long way to go to achieve the goal of two-way flow of urban and rural factors. It is necessary to improve the institutional mechanism of two-way flow of urban and rural factors from four aspects: comprehensively improving the efficiency of the coordinated allocation of urban and rural factors, promoting the integration of urban and rural industrial chains, developing and expanding the county economy, and giving full play to the synergistic role of "effective market" and "promising government".

##### **4.1. Comprehensively Improve the Efficiency of the Coordinated Allocation of Urban and Rural Elements in Space and Structure**

The two-way flow of urban and rural elements goes beyond the simple aggregation and stacking of elements, and in practice, it is necessary to optimize the spatial layout of elements and improve the efficiency of factor structure allocation. On the one hand, based on the needs of urban and rural factor allocation, the integrated development of factor space should be promoted through the co-construction of urban and rural space. On the other hand, it is necessary to promote the optimal integration of the six major elements between different regions and production links, and focus on strengthening innovative elements such as technology and data to empower traditional elements, so as to improve the efficiency of factor structure allocation.

##### **4.2. Taking the Extension and Complementarity of Urban and Rural Industrial Chains as the Starting Point, the Two-way Flow of Urban and Rural Elements should be Optimized**

China should improve the degree of integration of urban and rural industrial chains based on the development needs and functional positioning of urban and rural industrial integration and complementarity. First, it is necessary to systematically deploy the factor supply chain that meets the requirements of the integrated development of urban and rural industries, focus on increasing investment in key areas such as agricultural science and technology equipment, agricultural product processing and circulation, and alleviate the dilemma of shortage of urban and rural elements, so as to realize industrial association and industrial integration. Second, based on the characteristic factor endowment of different villages, based on the unique functions and comparative advantages of rural industries in food safety, cultural inheritance, ecological liveability, etc., the rural industrial structure system should be reconstructed, and the two-way flow of urban and rural elements should be optimized.

##### **4.3. Develop and Expand the County-level Economy, and Optimize the Two-way Flow of Urban and Rural Elements**

As a transitional zone between urban and rural areas, the county is the spatial carrier of the flow of urban and rural elements. First, it is necessary to revitalize all kinds of idle elements at the county level, promote the extension of related industries to rural areas, and actively explore the reform of the household registration system, regional policy innovation, and the equalization of public services. The second is to improve county-level financial investment and financial support policies to attract capital and technology and other factors of production to flow to rural areas.

##### **4.4. Improve the Two-way Flow Mechanism of Urban and Rural Elements with the Synergy between an Effective Market and a Promising Government**

A high-level socialist market economic system is an important condition for realizing Chinese-style modernization. It is necessary to give full play to the decisive role of the market in the

allocation of factors, activate the vitality of the factor market, and optimize the efficiency and maximize the benefits of factor allocation. In addition, the mechanism design provided by the government is the key institutional guarantee to help the formation of the factor price mechanism. Through top-level design such as policy guidance, institutional guarantees, financial subsidies, and financial support, the government can make up for market failures and promote the rational and efficient two-way flow of urban and rural elements.

## **5. Conclusion**

The Third Plenary Session of the 20th Central Committee of the Communist Party of China made a comprehensive plan for comprehensively promoting the integrated development of urban and rural areas in the new stage, proposing to "promote the equal exchange and two-way flow of urban and rural elements, narrow the gap between urban and rural areas, and promote the common prosperity and development of urban and rural areas". The integrated development of urban and rural areas is to realize the two-way flow and optimal allocation of various production factors between urban and rural areas on the basis of the equality of urban and rural residents, realize the integrated development of industries and the sharing of development results by urban and rural residents, and finally form an urban-rural community of common prosperity. The two-way flow and integration of urban and rural population is an important foundation for the integration of urban and rural elements, because only when the population flows freely can the gap between urban and rural labour productivity under the dual structure be gradually eliminated, so as to promote the coordinated development of agricultural and rural modernization, industrialization and urbanization, and realize the integration of urban and rural areas.

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