

Growth of China's Medium-Size Cities

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This paper explores the contradiction between the official Chinese policy of trying to deflect rural-urban migration away from larger cities toward smaller ones and other policies that bias the allocation of investment and FDI toward the largest cities. This paper shows that the deflection policy is not working—in-migration and urban population growth rates are highest in the largest cities. It also shows that smaller Chinese cities are not inherently less productive than bigger cities, they are just disadvantaged by domestic and foreign direct investment being heavily focused on the largest cities. Smaller and medium-size cities that are doing the best are those nearest large metro centers that may be recipients of outsourcing, as the largest cities move increasingly into service production. Factories in the largest cities may close or move aspects of production activity to nearby smaller urban centers.