

The Transformation and Strategic Research of China's Rural Areas under the Conditions of Urban-rural Imbalance

Ziran Su^{1,a,*}

¹*Economics School, Jinan University, Guangzhou, 511436, China*
a. 2022104433su@stu2022.jnu.edu.cn

**corresponding author*

Abstract: Currently, under the imbalance between urban and rural areas in China, there is a lack of transition strategies for most rural areas. In the context of vigorously promoting the rural revitalization strategy, it is necessary to focus on optimizing the urban-rural governance mechanism and constructing a more efficient market system and division of labor system to effectively address the economic imbalance between urban and rural areas. At the same time, it is important to emphasize the development of collective economy and improve the investment and financing mechanism to meet its funding needs, as well as to pay attention to the role of incoming population in promoting urban-rural integration development. This article focuses on the problems in these three aspects, elaborates on the significance of coordinated development in rural areas, and provides corresponding solutions, and incorporated analysis of development cases from some excellent countries. Aiming to play a positive role in China's rural transformation and development.

Keywords: Urban-rural integration development, rural financial system, population mobility, rural areas

1. Introduction

The imbalance between urban and rural economies has a long history, and the imbalance in China's urban-rural economy is particularly pronounced, accumulating under different economic systems and historical conditions. The fundamental reason for this lies in the uneven distribution of the urban-rural production structure, with deeper causes stemming from imbalances in the institutional arrangements of urban-rural production relationships, as manifested in the unbalanced governance systems and mechanisms between urban and rural areas.

Urban and rural areas play a fundamental role in the economic cycle system. Accelerating the smooth flow of the urban-rural economic cycle to promote coordinated, balanced, and integrated development between urban and rural areas is conducive to eliminating the imbalance in urban-rural economies and insufficient rural development. The dual economic system between urban and rural areas still constrains rural economic development. There are institutional barriers to bidirectional labor force mobility between urban and rural areas. The sustained drive for "capital going to rural areas" is insufficient. Currently, there are several bottlenecks and breakpoints in aspects such as resource allocation, market exchange, consumption investment, and income distribution within China's urban-rural economic cycle. Focusing on optimizing the governance mechanism between urban and rural areas, constructing an integrated market system and efficient division of labor

system between urban and rural areas, effectively resolving the imbalance in urban-rural economies is an essential path to promoting integration between urban and rural areas as well as rural revitalization.

The collective economy in rural areas is the main driving force for achieving leapfrog development in China's rural economy, as well as an important carrier for the modernization transformation of agriculture and rural areas. Under the background of China's modernization with Chinese characteristics, developing the collective economy first requires ensuring sufficient funds through a sound investment and financing mechanism to ensure smooth financing channels for collective economy. However, due to institutional factors that lead to externalization of China's rural financial system as well as non-objective regulation, it results in internal duality within the rural financial system - serving both the rural economy and the urban economy/industrialization. This duality gradually solidifies with widening disparities between urban and rural economies; excessive resources from rural finance are invested into city economies and industrial development, ultimately leading to mismatches between rural financial systems' resources allocation and funding needs for collective economic development.

The inflow of population into rural areas is also a key point for development. From a theoretical perspective, the movement of people occurs in physical and virtual spaces, affecting the flow of factors, industrial structure, and economic growth between urban and rural areas, thereby influencing integrated urban-rural development. In practice, focusing on rural areas, the inflow of mobile populations mainly includes government investment in agriculture, market-invested individuals, as well as on-site and platform consumer groups involved in agricultural activities. With the empowerment of the digital economy, a large number of people have realized the flow of investment or consumption into rural areas, facilitating the flow of people, capital, and goods from urban to rural areas and further promoting urban-rural integration.

This paper mainly analyzes the above three aspects. In terms of research methods, based on relevant economic theories and advanced research literature at home and abroad, this study uses methods such as induction and deduction analysis combined with quantitative and qualitative analysis.

2. Research on Urban-rural Governance System

The direct cause of the imbalance in urban and rural governance is the urban-rural division. The urban-rural division is not a general rule for the economic development of urban and rural areas, but a specific state formed by the urban-rural governance system in different historical periods, with changes in governance thinking, concepts, and goals at that time. The urban-rural division does not mean an absolute separation of cities and rural areas for governance; instead, it refers to the failure to integrate and govern the two spaces during the process of urban-rural economic development due to various reasons. This results in the inability to maximize the roles of both urban and rural areas in factors flow and adjustment of production relations, ultimately leading to an unbalanced urban-rural economic structure.

The urban-rural division also does not completely exclude the concept of governing urban and rural areas together. In fact, both cities and rural areas are integral parts of China's territory, so any governance proposal must necessarily take both urban and rural areas as starting points, always involving purposeful "governing together." However, purposeful "governing together" may not necessarily bring about objective "governing together" between urban and rural areas. When purposeful "governing together" does not embody values such as smooth circulation of urban-rural economy, fair and smooth exchange of factors, and complementary spatial functions of economic society, there may be a factual "urban-rural division." Therefore, the term "urban-rural division" referred to in this article indicates a certain historical product in the evolution of China's urban-rural

relationship, emphasizing the governance pattern resulting from the imbalance or excessive bias towards cities due to historical reasons.

The imbalance in urban-rural governance originates from the formation and development of the urban-rural division pattern. Starting from this pattern analysis, this article also explores the issue of unbalanced governance from two aspects: property rights over factors and market institutions. The imbalance in urban-rural development, as well as the insufficient development dilemma faced by rural areas, will always affect China's long-term economic growth and sustainable development. The mismatch of spatial resources and factors caused by unbalanced urban-rural economy will ultimately lead to distorted economic structure generation, reduce industrial production efficiency, hinder innovative development of China's economy, and be unfavorable for supply-side structural reform and innovation-driven domestic demand growth.

This section will propose governance strategies based on different aspects discussed earlier. The imbalance in urban-rural economic relations includes not only insufficient development caused by lagging rural industrial development but also issues related to factor property rights, trading markets, production organization management methods, income distribution etc., collectively forming obstacles to balance in urban-rural economic relations. How to adjust and optimize the past institutional mechanism-formed urban-rural economic relations during the process of governance is crucial for future planning layout focusing on overall coordination between urban and rural areas while promoting their integration path. Some regions have also formed distinctive local experiences and practices during their efforts to improve their economic relations between cities and rural areas.

In this process, an analysis of the practices of urban and rural governance in foreign countries reveals that in many developing countries, the relationship between the state and farmers or the urban-rural relationship tends to be compulsory or urban-biased. This is in contrast to the situation in developed market economies where agriculture and farmers are protected. The resulting imbalance in urban-rural development is a common phenomenon in developing countries. In terms of urban-rural integration, relatively mature models exist in European, American, Japanese, and South Korean contexts, each with its own distinct characteristics.

2.1. France: "Large and Medium-sized Farms + Large Rural Areas"

France has a highly marketized agricultural sector, with a strong emphasis on the rural tertiary sector, including rural commerce, traditional handicrafts, tourism services, and even rural elderly care within rural development policies [1]. Spatially, taking Paris as an example, the city's functions are dispersed through urban zoning or new city construction, establishing a relatively flat urban system [2]. This approach expands the reach of urban functional areas, providing numerous rural residents with non-agricultural job opportunities nearby and facilitating on-site urbanization. In terms of rural economy, France promotes the scale-based operation of medium-sized farms through moderately concentrated land use and subsequently emphasizes modernizing, professionalizing, and branding agricultural development [3]. Simultaneously, rural areas maintain their traditional lifestyle and agrarian scenery while emphasizing the protection and development of regional characteristics [4]. This has led to the establishment of a large number of high-quality agricultural and tourism products with distinct regional features and high brand added value such as French wine and theme farms.

2.2. United States: "Agriculture Without Rural Areas"

The United States is characterized by "large farms, industrialization, commercialization" (Canada and Australia fall into this category as well). In terms of spatial features, the United States has formed many economically and socially integrated "urbanized villages" during the suburbanization

process which accommodate nearly half of the urban-rural population [5]. In terms of rural economy, the United States focuses on high-tech and information-based agricultural development. Agriculture not only possesses high market competitiveness but also actively responds to market demands [6]. In terms of urban-rural relations, macroeconomic development policies such as prioritizing transportation infrastructure development, guiding housing construction, and providing financial support have been implemented to guide economic and technological resources from cities along transportation arteries towards suburbs and rural areas. Rural areas utilize their advantageous resources to attract investment from cities while achieving maximum freedom of urban-rural factor mobility under market forces [7].

2.3. Japan and South Korea: Maintaining Natural Rural Forms with Traditional Small-scale Farming

Japan's and South Korea's prominent characteristics include "village culture", family units", "small-scale farming". Both countries have a long tradition of small-scale farming economy which has undergone rapid industrialization and urbanization development; both have achieved agricultural transformation through land reforms and technological innovation while forming spatial development corridors for urbanization influenced by railway transportation [8,9].

In the process of modernization development mentioned above, the rate of urbanization for these economies stabilizes at 80%-90%. They retain relatively complete elements such as rural economy and rural spatial forms after reaching this level. As rural employment diversifies along with farmers' income sources becoming increasingly varied, each respective countryside no longer serves merely as a space for grain production but rather becomes a multifunctional space encompassing leisure activities, ecological conservation, and cultural heritage.

The integration of urban and rural industries is the high-level complementarity between urban and rural industrial sectors. When urbanization reaches a certain stage, the spillover of urban functions and diverse consumption demands require closer cooperation between urban and rural areas in economic circulation. Urban and rural industry integration meets the physical space and market capacity required for new urbanization development, while activating rural resource elements and economic potential, overall forming a new linkage of industrialization, informatization, urbanization, and agricultural modernization.

Firstly, accelerate the integration of urban and rural economic space. Firstly, carry out comprehensive land use planning for metropolitan areas and industrial layout planning, focusing on the driving role of county economies and characteristic small town economies in integrating urban and rural industries. County economies and small towns serve as pivotal hubs connecting urban and rural economic spaces. Using counties as carriers of urban-rural industries, plan to construct county industrial parks to integrate non-agricultural industries in rural areas with urban industries to achieve economies of scale, form industrial clusters, and undergo deep restructuring. Increase efforts in developing characteristic small towns, aiming at guiding different types of industries from urban and rural areas to concentrate in small towns based on targeted industry orientation to enhance regional economic development heterogeneity, thereby expanding market capacity, deepening social division of labor organization, and further accelerating the process of integrating urban and rural industries.

Secondly, explore establishing a collaborative division of labor system among various sectors and industries in urban and rural areas. Firstly, achieve asset integration through capital markets; for instance, urban enterprises can merge or invest in agricultural enterprises to enhance their asset value and operational capabilities. This is particularly beneficial for poorly managed enterprises on the brink of bankruptcy as it helps revitalize existing assets to avoid greater losses. Secondly, leverage the comparative advantages of both urban and rural spaces to explore using a headquarters

economy model to drive integrated development between urban and rural economies. For enterprises engaged in agricultural product processing manufacturing or rural ecological tourism development etc., significant inputs are required from various rural resources such as labor force, land resources, collective construction land in villages as well as relatively clean air and water resources in rural areas. These products can be concentrated in rural areas to improve the efficiency of utilizing various rural resources which broadens channels for participation by these resources in economic activities thus driving rural economic development. On the other hand, enterprises' headquarters located in urban areas can gather talent based on the city's high-quality medical education levels while accumulating human resources along with research management capabilities thereby enhancing specialized production service levels helping production departments improve product quality efficiency during production processes.

3. Research on Rural Financial System

After the reform and opening up, the structure of China's rural financial system has initially emerged. It has formed a system consisting of rural commercial finance with the Agricultural Bank of China as the core, rural cooperative finance undertaken by rural credit cooperatives, and rural policy finance relying on the Agricultural Development Bank of China. This reflects a system where commercial finance, cooperative finance, and policy finance coexist in the rural areas. The purpose of the formation and adjustment of China's rural financial system is compound: first, to maintain the economic operation in rural areas; second, to assist in the development of industrialization and urbanization. Therefore, it has created the "duality" within China's rural financial system, serving both rural and urban economies.

After the dissolution of people's communes, although rural finance has undergone adjustments and reconstruction to form a relatively complete system, it cannot be denied that the proportion of funds supporting rural economy is still insufficient. The flow of funds still tends to favor urban construction and industrial development. This has resulted in China's rural financial system having a complete structure on the surface but not fully playing a role in promoting rural economic development and driving rural financial credit.

Due to the exogenous generation, non-objective regulation, and internal duality characteristics within China's rural financial system, it cannot truly support rural economic development. Moreover, it has led to inertia in supporting agriculture during the process of urban economic development.

In summary, the actual role played by rural financial institutions in supporting agriculture is limited. The design and market segmentation of the rural financial system should correct its "urban-oriented" market bias through hierarchical design and legal enforcement to make different types and levels of rural financial institutions "contract" a certain range of rural financial business. They should gradually expand their business for different needs and scales of collective economic entities in a defined market range. When the market matures, restrictions between institutions can then be gradually lifted to stimulate healthy competition among various financial institutions.

Specifically speaking: Firstly, for cooperative finance in rural areas, agricultural credit cooperatives at township level and county-level agricultural credit cooperatives should be the main levels for conducting different types of financial lending activities for different scales of collective economic entities with varying terms, collateral guarantees or business types through mutual assistance with funds and joint credit enhancement. Meanwhile, in economically slower developing areas, corresponding branches or savings institutions should be established to conduct small-scale rural financial business for farmers gradually guiding them to develop cooperative economy to promote agricultural production scaling up and modernization transformation.

Secondly, for policy-oriented finance, it is necessary to change the single-market positioning and support methods of Agricultural Development Bank to leverage its policy guidance role. The Agricultural Development Bank should provide loan services to collective economic entities and farmers to fill the supply gap in policy-oriented finance. For medium and large-scale collective economic entities, it can carry out long-term project loans for large-scale agricultural infrastructure construction, farmland water conservancy project construction, comprehensive agricultural development, soil and environmental improvement, etc.; for small-scale collective economic entities, it can provide short-term supportive loans for agricultural technology development and infrastructure construction. In addition, rural policy-oriented finance should play a practical role in "policy support for agriculture", providing bottom-up support to low-income farmers and collective economic entities in the development stage. When they cannot obtain funds from commercial or cooperative financial institutions, they should be granted agricultural-related loans to provide policy-oriented assistance.

Thirdly, for commercial finance, rural commercial financial investment should be increased to develop long-, medium-, and short-term business stratifications targeting all agricultural economic entities. The advantage of "business stratification + market segmentation" lies in being able to activate rural capital markets through hierarchical and grid-like fund flows. When rural financial institutions have established fixed operating modes at various levels and different grid markets begin to interact positively, a coordination mechanism between rural finance and rural economy can be formed, enabling capital flow for agricultural entities with different needs.

In the current rural finance sector, taking rural cooperative supply chains as an example, favorable factors include the increasing emphasis by the Chinese government on the moderate-scale operation of rural areas and the establishment of new agricultural entities as the core drivers in the modernization process of agriculture. Taking planting as an example, data released by the Ministry of Agriculture last year revealed that as of the end of June 2016, the national contracted land transfer area had reached 460 million mu, exceeding one-third of the total contracted land area, reaching 35%, with some developed coastal areas exceeding half. Nationwide, there are over 3.5 million large-scale farming households operating on an area of over 50 mu, totaling more than 350 million mu. The number of new entities such as family farms, farmer cooperatives, and leading agricultural industrialization enterprises has exceeded 2.7 million. The latest data shows that the number of farmer cooperatives has increased significantly from over 1.3 million last year to over 1.9 million this year [10].

Driven by policy guidance and market environment, an increasing number of institutions are venturing into the agricultural supply chain field, ranging from comprehensive financial platforms in e-commerce form to industry finance projects rooted in agriculture and vertical segmented platforms focusing on rural financial services. In terms of business models, most agricultural financial institutions provide financial services to large-scale farming households and small and medium-sized enterprises in the industry chain around core enterprises for major agricultural inputs such as fertilizers and feed based on their own business scope.

4. Research on Rural Population Inflow

The final analysis of the interaction of various types of population inflows and their impact on the integration of urban and rural development. Under the background of implementing the rural revitalization strategy, financial institutions, investors related to agriculture, and enterprises are flowing into rural areas, with market entities settling in, driving the rural employment market and changing the scale and structure of labor outflows. The rapid expansion of consumer groups in rural areas and platform consumer groups has opened up broad avenues for increasing farmers' income, improving agricultural efficiency, and overall rural development. This demand-driven approach not

only guides the revitalization of rural resources but also encourages producers to improve their management practices and enhance the quality of agricultural products. This trend not only promotes the transformation of traditional farmers into new farmers but also encourages some migrant workers from rural or urban areas to become new farmers.

On one hand, there are no clear boundaries between various types of population inflows, with overlapping and dynamic transformations among them. On the other hand, the population inflows on one side affect those on the outflow side. Changes in government investment and market-related agricultural investment scale, as well as changes in the scale of consumer groups empowered by digital economy in agriculture, are the most direct signals and environmental factors affecting farmers' choices to become traditional farmers, migrant workers from rural areas or urban areas, or new farmers.

In terms of influencing urban-rural integration, population inflows directly invest through government funding or indirectly guide factor resources towards rural areas, thereby triggering adjustments in rural industrial structure and economic growth. This plays a role in driving urban support for rural areas and industrial support for agriculture as well as the trickle-down effect on urban-rural economic growth. The influence of population inflow on urban-rural integration development is both fundamental and has regional and cyclical characteristics. Government investment plays a fundamental role as it relates to agricultural investment construction which is essential for basic production and livelihoods in agriculture. Other types of population inflows have regional and cyclical characteristics due to distinct regional features, seasonal variations, and cyclical patterns inherent in agriculture. Rural resource endowments vary across regions with different agricultural products maturing at specific seasons which leads to noticeable seasonal and cyclical movements involving related consumer populations and market production supply subjects.

5. Conclusion

The smooth operation of the urban-rural economic circulation system is crucial for promoting coordinated, balanced, and integrated urban-rural development. In order to eliminate economic disparities and insufficient rural development, efforts need to be made to address the constraints brought about by the dualistic urban-rural economic structure, promote bidirectional labor mobility between urban and rural areas, and continuously facilitate capital inflow into rural areas. Optimizing the urban-rural governance mechanism and constructing an integrated market system and efficient division of labor system are the necessary paths to solving the urban-rural economic disparities, as well as indispensable approaches to advancing urban-rural integration and rural revitalization. This will help alleviate bottlenecks and breakpoints in resource allocation, market exchange, consumption input, income distribution, and other aspects.

The collective economy in rural areas is the primary driving force for achieving leapfrog development in China's rural economy. To ensure sufficient funds for this purpose, it is necessary to improve the investment and financing mechanism to guarantee smooth fund flow within the collective economy. The influx of population into rural areas plays a crucial role in urban-rural integration development. Through digital empowerment, a large number of people can facilitate the flow of labor, capital, and goods from cities to rural areas, further promoting urban-rural integration by channeling investment or consumption from cities to villages.

Therefore, in the strategy for rural transformation, it is essential to focus on addressing structural differences in production distribution, imbalances resulting from institutional arrangements, dual constraints within the rural financial system, and the impact of a large influx of population on comprehensive urban-rural development. At the same time, effective measures should be taken to promote urban-rural integration development and drive coordinated urban-rural economic development alongside rural strategic transformation.

Under conditions of unbalanced urban-rural development, improving the urban-rural economic circulation system allows money from urban circular development to first reach rural areas. With funds available, breaking through the original rural financial system facilitates better use of these resources. Finally, after creating a favorable environment, attention can be focused on attracting people to move into rural areas. With funds available and people coming in place, talent can be attracted which will enable long-term development through transformative reforms in rural areas.

References

- [1] Tang, S.S., Feng J.X. (2017) *Evolution of rural policies and rural functional expansion during the rapid urbanization period in France. International Urban Planning.*
- [2] Ye N.K., Zheng, Q.J. (2011) *Urban-rural integration in the Paris metropolitan area of France. Masses.*
- [3] Du Z.H. (2006) *Experience and enlightenment of modernization of agriculture in France. Macroeconomic Management.*
- [4] Bengs, C., Zonneveld, W. (2002) *The European discourse on urban-rural relationships: A new policy and research agenda. Built Environment.*
- [5] Xue, Q., Ren, Z.F. (2014) *Experience and reference of integrated urban-rural development in the United States. World Agriculture.*
- [6] Huang, L.H. (2007) *Supply of rural public goods in the United States and its enlightenment. Northern Economic Trade.*
- [7] Jing, P.Q., Xie, G.G. (2015) *International experience of urban-rural interaction and its enlightenment for China. Higher Education Research on Finance and Economics.*
- [8] Honma, M., Hayami, Y. (2007) *Distortions to agricultural incentives in Japan, Korea and Chinese Taiwan. World Bank Agricultural Distortions Working Paper.*
- [9] McGee, T.G. (2008) *Managing the rural-urban transformation in East Asia in the 21st century. Sustainability Science.*
- [10] Research Institute for Rural Finance. (2017) *Research Report on Scenario-based Application of Rural Finance.*